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Mid Year Review of the Economy 1989-90

by

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Prolegomena

This Mid Year Review of the economy is different from those of the past years.

First it is mid year of the terminal year of the Seventh Five Year Plan (1985-90) and so the occasion has been used to pass in review the major policies initiated or operating in the plan, particularly those that have been introduced or widened and strengthened during the Plan.

Second there is presented in the mid year review under each major section, a comparative table showing the forecast made by past mid year reviews on the growth rate or other magnitude and the actual attainment/realisation as reported by the Central Statistical Organisation or the National System of Accounts.

Third these tables show that the mid year forecast made make a good fit for some years but for the most show a varying divergence. In the discussion of the last two mid year reviews - those for 1987-88 and 1988-89, there were questions raised about the reliability of the official data used by the Review to make the prediction. In the 1987-88 review the question centred around the official data on industrial growth, the questions being from those who were involved advising on the compilation of the new Index of Industrial growth. Now CSO has had the time to take these issues into consideration and both it and the National System of Accounts have finalised the revisions and clarified the methodologies. In the discussion of the 1988-89 mid year review, the short comings of the official agricultural data were

highlighted by those working to generate them. And the questions then raised remain. And so it is that in this year's mid year review, there has been limited use of official figures, and more attention paid to the trends and policies characterising the various sub sectors.

The data used in the review continues to be from the Central Statistical Organisation with a 1 to 2 years time lag, the Agricultural Situation with a year's time lag, the National Account Statistics which has worked back on the revised 1980-81 basis in its latest 1989 publication, the Annual Survey of Industries with a 4-5 year lag, the RBI Annual report and Report on Currency and Finance which is fairly current but the data in which is revised from one publication to the next, and the Annual Reports of the ministries and departments of the union government for 1988-89 which give in each case data for the first 9 months of the year.

The Mid Year Review has made some contribution to helping in reconciling the differences and conflicts in the data presented by CSO, RBI and the Planning Commission, to which attention was repeatedly called in previous reviews. The major obstacle now faced by the Review is the dated nature of some of the important data. Will it be possible for the data collecting agencies to issue tentative/provisional reports on the data as soon as the processing is over. Further there are areas which are vital to the well being of the people, namely employment and poverty - in which there is a complete blank between the five year periods of

the census, or NSS rounds or the Five Year Plan documents. There is need for the lacunae to be eliminated and suitable machinery devised for the purpose.

This mid year review does not pass in review the entire inventory of items under each sector and sub sector as past mid year reviews have done, mainly because that does not fit into the changed format for this year. This format now concentrates on policies and issues of a general programmatic nature. Only those items are taken up for analysis and comment which present some special features or raise specific policy questions. To that extent there is in every sub section - Agriculture, Manufacturing, Infrastructure, Human Resources Development, - some discontinuity with past mid year reviews. One consequence is that this mid year review is somewhat more brief and more succinct.

<u>An Apercu</u>

Looking at 1988-89 and the perspectives for 1989-90, some plus and minus points are recorded in the mid year review for 1989-90.

On the positive side, both years have had recorded exceptionally bountiful south west monsoons, and as a result the economy in 1988-89 has registered an estimated 9 per cent rate of growth (which in part reflects the low growth level of 3.6 per cent in 1987-88), and the 1989-90 seems set to build on thatto achieve a growth rate of 5 to 5.5 per cent. The high 1988-89 growth rate (the low base apart) is primarily due to the

exceptionally high 18.8 per cent in the rate of agricultural growth, mainly traceable to the good monsoon and the growth rate of over 20 per cent of foodgrains production (at an estimated 172 million tonnes). For 1989-90 following th. repeat of the good monsoon, the agricultural growth rate is forecast at 4 per cent and the foodgrains production predicted at 185 million tonnes, which would give a growth rate of 6-8 per cent for the latter.

The other positive feature of the 2 years is that with regard the development of industry. For 1988-89 the official index of industrial growth is 8.8 per cent, with manufacturing registering 8.9 per cent. For 1989-90, the growth rate of industry is forecast to rise further to 9 to 9.5 per cent, with manufactures growing at 9.3 per cent and electricity at a record 12.0 per cent.

Another plus point is that agricultural policy has at last begun to plan for drought. The two good monsoon years have not produced the usual euphoria about the future. The irrigation advancement plant, the division of the agricultural economy into 15 agro climatic regions grouping together some 300 smaller sector regions, and the water sheds programme are the means of countering the worst affects of future droughts and also means of augmenting food and non food crops as a step of moving in the Eighth Plan to letting each local body do the agricultural planning, target setting and execution. This area specific approach to planning and execution applies to all sectors - agriculture and manufactures of the economy.

Among the cash crops, the record 1988-89 output of 17. million tonnes of oilseeds is forecast to be followed by a highe yield of 20 million tonnes in 1989-90, basically due to the goo rains, but also due to the technology mission which readied th farmers and suppliers of inputs to turn the monsoon to goo account. Now the country cannot only stop the costly edible oi imports in 1989-90, it is also emerging as a major exporter o oilseed cakes and other oil seed production.

The negative side of the two years 1988-89 and 1989-90 i equally disturbing. The most worrisome minus point is that al this increased activity in the economy, in agriculture, i industry has not sensibly made a dent on the problem of our mas poverty. The latest information set forth in the review show that in 1988 40 per cent of the people, that is over 320 millio men, women and children, were living in poverty, with about hal of them living in dire poverty. The most disturbing situation i in Central and East India comprising the states of Madhy Pradesh, Rajasthan, UP, Bihar, Orissa, West Bengal, and Assa where poverty levels are 40-50 per cent of their populations with a disturbing degree of stagnation or regression among th very poor.

Related to this is the indication that employment generatio is slow, in both the organised and unorganised sector, with a actual fall in employment rates in the private sector.

This latter, along with the organised (Factory) secto generally which have recorded high rates of growth as referred t

earlier is characterised by capital intensive, import guzzling technologies, with the most impressive growth being in the consumers goods and durable consumer goods sectors, which meets the fast growing demand of the upper middle classes for these goods. In the other words, the indutrial policy reforms termed liberalisation (both with regard to internal regulations and imports) are accompanied by high growth rates - which are not reflected in employment or any improvement in the levels of living of the poor.

Another pressure point in the last four years, which is forecast to widen and worsen is the deficit in foreign trade, a.d our export earnings not being able to service our mounting foreign debt, along with the deepening and widening of our negative balance of payments which for 1989-90 is forecast to be only slightly below the high -Rs.7000 croress in 1988-89. The outflow from our foreign exchange reserves has reached a point, where the reserves in 1989-90 will cover hardly 3 months of imports.

One troubling feature of the good agricultural performance in 1989-90 and also that anticipated for 1989-90 is the very poor procurement by public procurement agencies of foodgrains. Why foodgrains are being held back by traders, and farmers despite the record harvests for 2 years, and the rising procurement prices needs investigation and corrective action., For the buffer stock which is needed to meet the future year's drought, it is now as at June 30, 1989 down to 6 million tonnes of wheat and 3.4 million tonnes of rice, which ought to be a total 22 million

tonnes for the buffer and operational stock purposes, according to agreed norms.

The price situation is equally disturbing. For 1989-90 the whole sale price index is forecast to rise to 9 per cent on top of the rise of 5 per cent already registered in 1988-89. The consumer price index is also anticipated to rise to 8 per cent in 1989-90 being one of the rare occasions when its rise is expected to be 1 percentage point lower than the rise in wholesale price index. This is on top of the consumer price index rise of 8.6 per cent in 1988-89. One disturbing feature of the inflationary situation is that the major price rises are recorded for 1988-89 and the first quarter of 1989-90 in the foodgrains and food articles group, impinging heavily on the poor. A major cause of the inflation (as of the deficit balance of payments) is the continuing and heavy revenue deficit financing of the government, on which there seems to be no let up in the current year. Thus at this mid year point the minuses outweigh the pluses for 1989-90, particularly in a decelerating industrial growth rate, poor performance of infrastructure, declining foreign exchange reserves and a growing budget deficit.

The <u>Economy and the Plan</u>

On the basis of data on the performance of agriculture, industry and in infrastructure, the rate of growth of GDP for 1988-89 is placed at 9 per cent. The Reserve Bank places it at 10 per cent - both on the basis[1] of the low 3.6 per cent growth rate of the previous year. For 1989-90 on the basis of the

performance of the sectors in the first two quarters in 1989-90, the growth rate for the current year is forecast at 5 to 5.5 per cent, though at this mid year point, as noted above, there are decelerating forces at work. However if the 5 per cent projection is realised, this will mean that for the Five years, the Seventh Plan target of 5 per cent growth is likely to be attained, and exceeded to some extent, in the statistical sense.

It is useful to examine how far the Mid Year Reviews of the forecast of the annual GDP growth rate fits in with the actual rate reported by CSO and/or the Economic Survey, which the table below sets forth.

<u>Table I</u>

(percentage)

<u>1985-86 GDP growth rate</u>	
Mid Year Review	3 to 3.5
Economic Survey's anticipation	4.5 to 5
CSO	4.9
<u>1986-87 GDP growth rate</u>	
Mid Year Review	5 to 5.5
Economic Survey's anticipation	4.5 to -5
CSO	4.1
<u>1987-88 GDP growth rate</u>	
Mid Year Review	1.5 to 2.5
Economci Survey's anticipation	1 to 2
CSO	3.6
<u>1988-89 GDP growth rate</u>	
Mid Year Review	8-9
Economic Survey's anticipation	9

<u>1989-90 GDP growth rate</u>

Mid Year Review	5 to 5.5
RBI's forecast	4.5

The above table shows that forecasts of the growth rate by the Mid Year Review does not make a good fit for any of the three years for which CSO data is available. It is nearer the anticipated rates of the Economic Survey and RBI for the last 2 years. The most serious divergences between the Mid Year Review growth rate forecast and that of CSO relates to 1987-88, when the Economic Survey's forecasted rate was even wider of the CSO rate of 3.6 per cent.

This CSO report of the GDP rate of 3.6 per cent for the drought year, 1987-88, raises questions. A drought - what has been described by some meteorologists as the worst drought of the century - and the small fall in foodgrain production for that year by a mere 3.5 per cent from 143.4 million tonnes in the previous year to 138.4 million tonnes do not seem to go together. Other agricultural crops like potatoes, sugarcane, oil seeds - both major and minor actually show increases. This has led to an interesting debate. One part of it is the contention by some scholars that the 1987-88 drought was not the worst drought of the century, that it was severe only for 3 states, and was moderate for 4 others and was similar to the drought in 1982-83. On this basis, it is concluded that the small fall in foodgrain production in 1987-88 and rise in the growth rate of other agricultural crops is what should be expected. Against

this analysis, it is pointed out that the above data is based on the kharif rice crop which are all in the well irrigated areas of Punjab, Haryana, West UP, Andhra Pradesh, unlike in Rajasthan and Karnataka where there was a steep decline in the yield of coarse cereals, particularly bajra. That is where and why there was the drought affected steep decline in foodgrains which the aggregated CSO statistics does not reflect.[2]

Another offshot of the CSO reported 1987-88 growth rates of agriculture, foodgrains production, industry and the economy is the contention that agriculture has become drought proof, that industry has broken off its dependence on agriculture, that industrial growth is now an autonomous factor. There are here two distinct elements which are mixed up. First the claim that the good performance of agriculture and the foodgrain output in the very serious drought year 1987-88 is an indication that the economy has now become insulated to droughts, that the agriculture policy makers and the departments of the state and union government are now able to insulate agriculture from droughts. This is a somewhat premature conclusion because over the 4 deccades of planning, including the year 1987-88, the annual rainfall is seen to be the most important variable to explain both the trends and shift upward or downward, of agricultural growth and overall economic growth. The trend growth of agriculture is 2.5 per cent and of the economy is 3.9 per cent. Rainfall has an elasticity of 0.4 per cent with regard to agriculture and 0.16 per cent in regard to the economy. There is also the fact that with the structural change in the economy

involving agriculture's share in GDP declining from 47 per cent in 1970 to 30 per cent in 1987, any effect of a failing monsoon has a smaller impact now on the economy and its overall growth rate than it did a decade ago. This does not mean that government policy and past irrigation investments have not resulted in softening the effect of the droughts on foodgrain yield and the economy. In 1987-88 the government not only diverted considerable domestic resources to compensate the drought effects, but also for the first time received and used large amounts of foreign resources through bilateral and multilateral channels for drought relief.

The other element in this argument of the economy becoming drought proof is the weakening of the agriculture - industry linkages, and of industry becoming increasing by autonomous an independent of agricultural yields and inputs. The Economic Survey 1988-89 refers repeatedly to "the resilence of the economy in the face of severe weather stress" and "the sustained growth performance in the sphere of industry". For the causes, it states that such good performance under adverse conditions is attributed to basic policy reforms (which will be analysed later under the section on Industry-Manufactures) which promoted effective competition and to long term changes in industrial structure which have made the sector less sensitive to fluctuations in agricultural production".[3] This relative independence of manufactures vis a vis agriculture is seen in the increasing substitution of synthetic substitutes for agricultural raw materials, particularly for the production of consumer

durables for which the demand is increasing so rapidly that the growth rate of this subsector of manufacture is near double the overall growth rate of all manufactures, as will be noted later. The consumer durables growth which is an important part of the relative autonomy of the manufacturing sector is in response to the growing market demand and incomes of the upper middle class of our society. In other words the weakening of the agriculture - industry linkages referred to by the Economic Survey, is because industrial growth has become increasingly demand induced.

The rising GDP growth rate for 1988-89 and the rate estimated for the current year are encouraging, but continues both the structural change in the economy referred to in the mid term assessment of the Seventh Plan[4] and the stagnation in per capita foodgrain consumption. The disturbing part of the structural change in 1988-89 is that of the high 39 per cent contributed by the services sector to GDP (tertiary sector incomes are 45 per cent of GDP), the share of defence and public administration was an equally high 13.5 per cent, which in part explains 'the drought proof' character of the economy referred to earlier. The table below gives the structural change in the economy over the 70s and 80s :

Table II

Sector	Percentage Share (in real GDP)		
	1970-71	1980-81	1987-88
1.Agriculture & allied activities	47.4	38.0	30.5
a) Agriculture	45.7	34.7	28.3
2.Industry	16.4	20.9	26.2
a) Manufacturing	14.2	17.7	22.0
3.Services	30.9	36.1	38.9
Total GDP@	100.0	100.0	100.0

@Inclusive of construction
Source: CSO

With regard to per capita foodgrain consumption, it has stagnated at 180-190 kg during the Seventh Plan. But this overall national statistics hides the varying distribution of per capita foodgrain consumption between expenditure classes that is brought out by the various rounds of NSS. Against the official satisfaction over our self sufficiency in foodgrains production which the 1988-89 Economic Survey expresses thus "Today basic food self sufficiency has been achieved in the sense that demand and supply are balanced at the given distribution of income," the last phrase should be noted, namely, "at the given distribution of income" meaning in simple language the unfilled hunger of the over 300 million people living in poverty going to bed hungry every night. One of the remedies proposed to this situation is more carefully target foodgrain distribution as "to reach families living below the poverty line" suffers from the double

infirmity that first those who go to bed hungry are not only those below but also those at or just above the poverty line, and second that if ever we have a distribution system that really reaches the rural poor, who are the majority, our foodgrains production will have to double and our procurement increase three fold, even at the very low 200 grams per capita consumption. CSO's white paper on National Accounts Statistics for the period 1980-81 to 1986-87 expresses this in restrained technical terms when it states that the share of basic consumption goods declined from 58.9 per cent to 55.2 per cent during this period.[5]

Turning to the Annual Plan of the Union government for 1989-90 two issues demand comment. First the Plan outlay of Rs.34,446 is a 14.2 per cent increase over the revised plan outlay estimate for 1988-89. The 1989-90 Plan outlay is the first one to be financed by the extra budgetary resources of the public sector being higher than that through budget support and internal generation of funds. In fact budget support which was 55.7 per cent in 1988-89 dropped to 49.2 per cent in 1988-89. The extra budgetary financial support to the Plan comprises a) a greater reliance on the resource of the public sector enterprises - railways, ONGC, OIL, SAIL, Telecommunication, CIL, Telephones etc whose contribution will amount to 71.8 per cent of total internal resources. This means of funding the Plan could be sound if the resources flow from increased productivity of public sector enterprises. For 1989-90 this could happen, if the profit making trend of the last 2 years continues. But the increase in the prices of the enterprises engaged in fuel, power and transport

point to the possibility that the increased resources might flow from price increases rather than increased production and productivity.

The other point to note in the Annual Plan is the government's claim that with this outlay, the total outlay for the Seventh Plan will be Rs.128,583 crores in current prices (+35 per cent) and Rs.96,904 crores in 1984-85 prices which is a 15 per cent increase as against the 11 per cent short fall in the Sixth Plan. Thus the Seventh Plan financial target has been exceeded, which is satisfactory, but it should be noted that the target was a low one as seen in the fact that the plan expenditure declined to 36.6 per cent of the Union government's total expenditure against it constituting [illegible]0.7 per cent for the Sixth Plan. It will be noted later under the analysis of the Fiscal Policy section that the erosion of the Plan expenditure will continue as a function of the growing revenue deficit.

Another feature of the 1989-90 Plan is that it continues the trend to concentrate the bulk of its outlays and even increase them like past annual plans, on the lumpy infrastructural sectors of power, transport and communications. On these 3 sectors the outlay is increased by 20.1 per cent over the revised outlay for 1988-89. In comparison, the outlay on employment generating sectors of agriculture, irrigation and flood control, rural development and social services is static at Rs.6566 crores compared to Rs.6565 crores of the revised outlay of the 1988-89 plan. Even worse, the outlay proposed for the employment

schemes of NREP & RLEGP at Rs.1211 crores is lower than what was proposed in the 1988-89 budget. An attempt is made to counter this by the provision in the Plan of the special 120 districts employment programme through an outlay of Rs.500 crores, which has later been merged with the NREP & RLEGP outlays and called by a new name Jawahar Rozgar Yojana. The decline in resources for this programme might be larger as only 75 per cent of the outlay is to be funded by the Union government, against the 100 per cent funding of one part of it - the RLEGP till 1988-89.

At this mid year point, the debate on the nature and thrust of the eighth plan is in full spate. As usual, the planning commission's suggestions are unexceptional as far as the wording is concerned, that the Eighth Plan objectives should be growth and modernisation aimed at a) reducing poverty levels to 18 to 20 per cent of the population from the current 28-30 per cent (this is the Planning Commission's data), b) a sharper focus to reduce regional disparities and ensure more dispersed growth, c) an annual employment growth of 3 per cent (given the labour force growing at an annual 2.5 per cent), d) international competitiveness in exports and attainment of excellence in select sectors, e) the minimum needs programme which will provide 194 kg per capita per annum of foodgrains, universalise elementary education, eradicate illiteracy in the 15-35 age group, provide clean drinking water, contain major communicable diseases and a comprehensive health system to attain the health for all by 2000 goal, and f) greater decentralisation, making for people's participation in the plan. For all this a higher growth than the

trend of 3.9 per cent and the 5 per cent for the Seventh Plan is needed and the debate is an as to whether it should be 6 or 7 per cent. There is in all this, little attempt to learn from past and current experience where the socio-political structure ensures that no matter what growth rate is set, the problems of massive poverty and unemployment continue, that verbalism replaces action, and with all the talk and legislative motions for Panchayati Raj and Municipal development, there is no move towards decentralised planning, with every aspect of the Eighth Plan, apart from objectives and overall policies including that for resources which must be decided nationally at the National Development Council, every sector and sub sector, priorities within them and through the devise of centrally sponsored scheme is decided centrally and passed on to the other levels at the states and local authorities as given facts for execution.

Fiscal Policy

At this mid year point, there are issues thrown up by the Budget, the public debt, internal and external, and Ninth Finance Commission which demand attention.

In the 1989-90 budget, the most serious fiscal issue is the continuing heavy reliance on the revenue deficit which is growing at a trend rate of 42 per cent in the Sixth and Seventh Plan, reaching Rs.71,03 crores in the 1978-79 revised estimate. This revenue deficit situation should be seen internally from the start of Planning with I Plan to the start of the Sixth Plan as occuring only twice - in 1971-72 and 1972-73 because of Indo-Pakistan war which resulted in the emergence of Bangladesh, for

all other yearss the current account had a positive balance, which was used to create assets. But since 1980-81 revenue deficits have become a permanent feature. Internationally the World Bank reports that all developing countries together have a 0.2 per cent of GDP surplus on revenue account except Zambia and India. The issue is, has the revenue deficit become a chronic feature of our fiscal scene, in connection with which warnings are issued against the economy falling into a "revenue deficit trap"[6]

The major effect of the revenue deficit which is caused by our run away non plan non development expenditure(which rose by 31.8 per cent against the Plan increase of 6.86 per cent in 1986-87, by 19.0 per cent against the plan increase of 4.1 per cent in 1987-88 and 11.2 per cent in 1989-90 against the Plan's 3.2 per cent in 1989-90) to which attention has been called in the last 3 mid year reviews, and turns the balance from current account (BCR) from positive to negative figures. In this connection it should be recalled that the Long Term Fiscal Policy, also studied and reviewed with the help of its author, the then Minister of Finance, promised that BCR would be 0.3 per cent of GDP by this year, 1989-90, when it is actually -1.1 per cent of GDP. One consequence of this deficit situation is the lower budget support to the plan and the capital account being used to finance revenue expenditure, as noted earlier. Further to run the ordinary business of government, including its high non development expenditures, such as defence and war outgoings, non interest bearing funds of Rs.500 crores are borrowed from the public

sector which along with the transfer of Rs.2300 crores from the oil coordination funds ought to have been used for developmental purposes.

Other disturbing features of the budget deficit, as pointed out by the Reserve Bank include: i) the fortnightly average deficit at Rs.8114 crores in 1988-89 being higher than that of past years, (at Rs.6790 crores for 1987-88 for instance) with the pointer that deficits must build up gradually over the entire fiscal year for monetary growth to remain within predicted limits; and ii) the actual five year deficit financing being 2 times what was envisaged for the Seventh Plan at Rs.33,110 crores compared to the projected Rs.14,000 crores.

Related is the increasing tendency of the government to treat depreciation of the union government public enterprises as a resource available to it for its budgetary expenditures. There are problems in this approach as depreciation is a charge on profits and not part of the budget, aggregating it is difficult to estimate as it varies with type of assets and type of productive pressure. The table below shows the use of the depreciation provision by the government which has increased three fold in the sixth and seventh plans.

Table III

Rs.Crores

Year	Depreciation	Total Internal resources	Depreciation as proport-tion of total in %	Depreciation per unit (In Rupees Crores)
1980-81	735.94	124.95	59.89	7.22
1981-82	1052.53	2261.31	46.55	9.57
1982-83	1382.38	2752.73	50.22	12.02
1983-84	1638.53	3277.69	49.99	14.13
1984-85	2354.53	4251.03	55.50	14.34
1985-86	2064.25	5067.95	48.62	19.57
1986-87	2661.13	6097.20	43.65	20.79

Source:RBI and ICICI

The per unit figure in the last column is an average which varies with the value of plant and machinery in each unit and in its turn reflects the changing price level. There is a case for the Planning Commission reviewing the question of depreciation being treated as resources for the Plan as depreciation is not cash and should not be treated as part of liquidity, its use involves accrual of interest charges for the government, it is an essential charge independent of whether the firm makes a profit or loss, the resort by the firm to high interest bank borrowing to meet its cash need and the impact of this practice on the commercial viability of the enterprises.

Other aspects of the fiscal policy include the nature of taxation. An attempt has been made in the 1989-90 budget to raise more tax revenue through increase in direct taxation via the surcharge on income tax. Further the indirect taxes of excise and tariff duties are levied on non necessaries. There are four limitations to this tax profile. First the long term

regressive nature of the tax system should be noted under which the share of direct and indirect tax revenues of 56:44 at the start of the I Plan has now moved to 10:90. Second the policy of relying on pre budget measures, such as raising administrative prices which place these activities outside parliamentary control, continues, though the current budget raises more from taxes at Rs.1287 crores than through the prebudget fiscal decisions at Rs.860 crores. Third the various reductions in personal and corporate taxes have to that extent made the fiscal position of the government serious and has led to the various deficits referred to earlier. Fourth the attempt to make the tax introduced somewhat progressive in the budget is nullified by the revenue deficit of Rs.7012 crores, which is highly regressive in two ways. Directly it raises the prices of goods consumed by the poor more than any rise that is effected on the prices of luxuries or non necessaries. Indirectly the money created through the budget deficit augments the non-wage income of the well to do which is spent by them on income elastic goods and services, for which there is unused capacity or which can be speedily assembled through imports. Thus the indirect effect of the deficit budget is to worsen income and asset distribution.

One other of the worrying fiscal problems is the growth of subsidies, which should be usually a short term instrument to compensate the producer for unforeseen or short term cost rises or subsidise the consumer till he earns enough to pay the price, if the price itself does not decelerate. But here again subsidies are both growing steeply and on the basis of the

experience of the Sixth and Seventh Plan seem to be becoming a permanent part of the fiscal land scape. They have increased continuously from Rs.1941 crores in 1951-52 to Rs.8454 crores in the 1989-90 budget. The largest component is the fertiliser subsidy forming 43.3 per cent of the total subsidies. This will be analysed and some means of correcting this situation will be dealt with in the Industry-manufactures section. The food subsidy as a percentage of total subsidies is on the decline from 36.1 in 1951-52 to 26.0 in 1989-90 and some of its features have been commented on earlier. A small but questionable subsidy is the one on interest on the loans taken by public sector undertakings such as SAIL, NTC, CIL. This should be part of the budget support to these enterprises so that their real production cost and efficiency levels can be computed. More generally there is need to review the whole question of subsidies and their composition .so that they form part of an integrated coherent fiscal policy.

The other part of the fiscal scene which demands attention is the question of public debt. To start with, the size of the public debt is increasing inexorably from year to year. The government's public debt in 1989-90 is Rs.1,30,758 crores as internal and Rs.28,037 crores as external. The internal debt comprises a)market loans, b) treasury bills, c) special securities held by RBI, and international financial institutions. To this, if other government liabilities of borrowing from small saving schemes, provident funds, reserve funds and deposits are added the total internal liabilities of the government in 1989-90

are Rs.231,692 crores, which has doubled over the Seventh Plan between 1985-86 and 1989-90. India's external debt faces a problem of both computation and the precise level. The government informed parliament that the external debt was $41 billion (which is near the World Bank's 1987 report of $46.37 billion) and which at the rate of Rs.7.50 to the dollar amounts to Rs.28037 crores, but which at the current exchange rate amounts to Rs.54817 crores, which the government acknowledged. Further India's external debt is computed by OECD at $50.4 billion. One reason for the difference between World Bank and India's estimate on the one hand and that of OECD on the other is that the latter also includes short term trade credits. Three features of this public debt situation should be noted. First the rise in the government's public debt increases the interest payment which constitutes in the 1989-90 budget 25 per cent of the revenue expenditure and 31.3 per cent of non plan expenditure. Second there is a real possibility of the country getting into a debt trap by 1990-91, in the sense that the loans raised through market borrowing not being able to cover the interest to be paid. This can be avoided only by pruning non plan non development expenditures, reducing the revenue and overall budget deficit and use of market borrowing for Plan and capital investment, whose returns can pay for the interest. Third India's external debt has reached a level which the export earnings of the country cannot service optimally. The debt service ratio reached 24 per cent in 1987-88 and is rising further, well above the Seventh Plan postulated 17.6 per cent.

India is now placed as the 4th largest international borrower after Brazil, Mexico and Argentina. Under these conditions there is need for international commercial borrowings which have near trebled between the start and the terminal year of the Seventh Plan at Rs.4314 crores for 1988-89, to be reduced to the level at the start of the Plan, of Rs.1500 crores.

The results and recommendations of the Ninth Finance Commission are awaited. . With the extension of its term till the end of the year, the procedure of guessing its recommendations and its result on the economy of the country and those of the states continues. It would be of interest to see if in its final report it continues the use of the poverty ratio as a norm for tax revenues sharing between states which the Eighth Finance Commission had considered and rejected. The Ninth Commission's use of it in the interim report resulted in well to do states being favoured. Maharashtra which on the basis of per capita SDP should have got 3.06 per cent was actually allocated 8.56 per cent as a result of the use of the poverty ratio, Kerala on the other hand lost 32 per cent of what it should have received. As a result, governments in similar positions are reviewing their poverty ratios. This is then another element distorting the estimation of the poverty percentage of each state. The other issue exercising the states (and the Union) is the declared intention of the chairman of the Commission to ensure that revenue deficits cease completely by the Eighth Plan, as in his opinion, the alternative is fiscal collapse, involving a deficit of Rs.50,000 crores for the Union and Rs.12000 crores for the

states. While the call for tight administration of non plan funds and economies in expenditures are essential, and the desirability of reducing as rapidly as possibile revenue deficits to avoid what was earlier termed as the 'revenue deficit trap', are inescapable, the complete wiping out of the revenue deficits by 1994-1995 may be too early by one plan period. Finally the Commission has been enjoined to use normative methods in estimating revenues and expenditures of the Union and the states. This too is looked at with some anxiety as there is need for the selected norms to be equitable between the states. The commission's use of the regressive model to apply the normative approach in its interim report in assessing the tax - revenue capacity of different states, which reauces the complexity and heterogenity of revenue and income submissions from the states in order to yield to elasticities for the commission pragnosis needs careful review and checking. Similarly it adjusted the forecast of revenues produced by the states by using moderated normative estimates which are based on a) tax capacity, b) variation of SDP, c) population and d) Lorenz ratios. Non tax revenue estimates were based on past trends and past Finance Commission decisions. On the plan side it simply took the 1988 plan revenues and increased them by 10 per cent. Hence both for non plan revenues and expenditure estimates and plan estimates for the Eighth Plan, the work of the commission will be based on a number of important imponderables which include further the relative weight given to tax devolution versus grants, the arbitrary and inequitous project approach of the interim report and the escalating demands of the special category states.

Prices

The official inflation rate is usually measured by the whole sale price index (WPI). The WPI for 1988-89 registered a rise of 5 per cent. The consumer price index showed an inflation rate of 8.6 per cent for the year. For 1989-90 WPI for the first 3 months April to June rose by 4 per cent and for the whole year can be forecast at 9 per cent. The consumer price index usually taken as that for Industrial workers was 3.5 per cent for the period can be forecast for 1989-90 at 8 per cent, which is lower than the WPI inflation rate and is rather unusual.

The comparative forecasts by the mid year reviews of the increases recorded annually for wholesale price index and consumer price index and the actuals reported by CSO or the Economic Survey is set forth in Table IV:

Table IV

(Percentage)

1985-86	WPI	CPI
Mid year review	10-11	9
CSO	3.8	8
1986-87		
Mid year review	8-9	9
CSO	5.3	8.8
1987-88		
Mid year review	10-11	11-12
CSO	10.8	9.8 for industrial workers 14.8 for agricultural labour

<u>1988-89</u>		
Mid year review	9	10
Economic survey	5	8.6
<u>1989-90</u>		
Mid year review	9	8

The table shows a rather wide divergence between the Mid Year Review forecast and the CSO/Economic Survey report on WPI price rises for 1985-86 and 1986-87, the divergence in 1988-89 is in part due to the Economic Survey covering only 9 months of the year. For 1987-88 the fit is closer and somewhat less for 1986-87. But the alarming CPI rise for agricultural workers of 14.8 per cent in 1987-88 may be noted.

The problem with prices in 1988-89 and the first quarter of 1989-90 is the puzzle of the inflation rate in years of good monsoon, when the economy was growing at 9 per cent in 1988-89, and the agricultural growth at over 18 per cent and industrial growth at 8 to 9 per cent and the high rates expected for 1989-90 for the growth of the economy, agriculture and industry, following the repeat good monsoon. The major part of price rise was recorded in the rise of foodgrains and food article prices. RBI reports over the year ended February 1989, the 5.9 per cent rise due to all groups, with prices of primary articles showing the highest rise at 6.3 per cent (pulses rising by 31.4 per cent, foodgrains 16 per cent, despite increased supplies through large release of foodgrains and import of edible oils and other commodities) all of which add to the puzzle.

The relation of these price rises to increase in money supply (M_1 & M_3) and increase in bank credit to government and to the commercial sector needs comment. In the 12 months ended February 1989 M_1 increased by 13.7 per cent and M_3 by 16.3 per cent. Bank credit to government increased by 17.2 per cent, to the commercial sector by 15.9 per cent. This means that the average rate of growth of reserve money in M_1 & M_3 (with a large currency component) increased (the growth of reserve money during the four years of the Plan was 18.6 per cent per year and that of overall liquidity as annual 17 per cent). The large share of currency component in reserve money reduces the role of monetary policy. In the first 4 months of 1989-90, RBI reports a sharp rise of notes in circulation by 13 per cent. That is, while reserve money's contribution to change in money stock is large, it also reduces the scope for influencing credit creating capacity of the banking sector.

It should also be noted that the main reason for increase in money supply was the net bank credit to government, (through the revenue deficits noted earlier) which rose by Rs.14,421 crores as noted above. Taking the total outstanding credit, the increase in 1988-89 was 17 per cent. RBI introduced select credit controls, raised Statutory Liquidity Ratio, (SLR), in stages to 38 per cent from 2 January 1988, and the Cash Reserve Ratio, (CRR) to 10.5 per cent from 2 July 1988 and 11 per cent from 10 July. On the other hand, the aboliton of the Credit Authorisation Scheme (CAS) which involved the removal of ceiling on maximum lending rates and which involves RBI giving up a

major tool of credit policy lessens its credit control. This together with the permission to banks to operation the money market increased the flow of credit. The advance announcement of the slack season credit policy on 27 March instead of the usual early May was a further indication of the faster growth of credit following from the increased contribution to the growth of the economy from the secondary and tertiary sector.

The Reserve Bank attributes the inflation rate to: a) sectoral demand-supply imbalance: b) rise in import costs and administered prices: and c) the persistance of large liquidity growth, as noted earlier.[7]

But the major cause for inflation is the monetization of the fiscal deficit, or as the Economic Survey 1988-89 points out, the lack of balance between government revenues and expenditure, which balance is needed to enhance future prospects of price stability. This section on prices may well end with the broad conclusion of the Economic Survey which states: "As pointed out by the Chakravarty Committee report on the monetary system, much of the growth in money supply can be explained in terms of the budgetary deficit by the central government. A reduction in the underlying average rate of inflation in the medium term is likely to require a reduction in the average rate of growth of money, which, in turn, will entail moderation in the scale of central government budget deficits". The instrument for keeping money supply in check recommended by the committee was the establishment of annual monetary targets by RBI and the government. This has not been done, and if followed, may well be

one key to control the growth of reserve money and inflation which hits particularly the poor who spend most of their meagre incomes on rising food prices.

Agriculture

The Agriculture growth rate for 1988-89 is estimated at 18.8 per cent. The Reserve Bank places it at 19.7 per cent. Food grain production for the year which was placed at 166.57 million tonnes is now estimated by the Planning Commission at 172.18 million tonnes, which is also the Reserve Bank estimate. It is not till late in October/November that the final crop returns will be in and the definitive yield for 1988-89 can be established. For 1989-90, at this mid year point, with the second year's good south west monsoon, the agricultural growth rate may be estimated at 4 per cent. The foodgrains output for the year may be placed at 175-178 million tonnes which would be a rise 2 to 4 per cent. The government has fixed a rather ambitious target of 185 million tonnes which is a growth rate of near 7 per cent.

Lest these rather impressive attainments in the two good monsoon years give us a false sense of a continuously growth increasing agriculture, it is well to recall that there has been steady declining trend in the growth rate between every two peaks in foodgrains production - from 4.77 per cent between the 1973-74 peak and the 1978-79 peak, to 2.77 per cent between the 1978-79 and 1983-84 peaks on to 2.3 per cent between the 1983-84 peak and the 1989-90 peak; for the non foodgrains sector the trend is

even lower.

At this point, it is necessary to see how far the Mid Year forecasts for the VII Plan of the growth rate of Foodgrain yield and agricultural production stand upto CSO data made available some 30 months later:

Table:V

1985-86	Quantum	Rate Per cent	Agriculture growth %
Mid Year Review	155 mt	3	Nil
CSO	150.5mt	3.4	1.1
1986-87			
Mid Year Review	152 mt	-1.1	-1
CSO	144 mt	-4.7	-3.7
1987-88			
Mid Year Review	130-140 mt	-8 to -9	-3 to -4
CSO	138.4 mt	-3.6	-2.1
1988-89			
Mid Year Review	166-167 mt	13-14	13
Economic Survey	166.5 to 171 mt	20-23	17-20
Dept of Agriculture	172	23	22
1989-90			
Mid Year Review	175-178	6-8	4
Government	185 mt	6-7	

Looking at above table, except for 1987-88 which was the drought year and to some extent also for 1986-87, the fit between the Mid Year Review forecasts of the growth rates of the foodgrains and that predicted for agriculture and those of CSO and for the last 2 years of the Economic Survey and the Department of Agriculture seems to be a close one. For 1987-88

even the Economic Survey forecast of the growth rate for agriculture and foodgrains production (not the revised figures published in the 1988-89 survey) was -7 to -10 per cent and RBI's in its annual report was -8 per cent.

Both years under review, 1988-89 and 1989-90, have been, as noted earlier, very good monsoon years. In 1988-89 32 out of 38 meteorological subdivisions comprising 88 per cent of the districts had excess or normal rainfall. In 1989-90, as of early August 1989, 30 out of 35, meteorological subdivisions have had excess or normal rainfall. The groundwater levels have risen every where, irrigation reservoirs have been full and ground moisture very satisfactory even for dry farming areas. The time is now ripe for a certain number of drought years from the start of the VIII Plan.

Two major anti drought programmes have been developed during the drought year and the two last bountiful monsoon years, which have given us a breathing space. One is the irrigation advancement plan for both early completion of ongoing major and medium irrigation projects, including a water distribution system net work to deliver water to the farmer's field in one of the crop seasons. This also brings about a relationship between irrigation expenditures and the resulting benefits, not in terms of the somewhat abstract concept of irrigation potential which Plan documents - the VII Plar and Annual Plan documents as well in mid term appraisal - use, but in terms of the number of waterings to the field in a crop season that the project has

assured. The concept of irrigation potential is not however without its uses. It points to one of the grave wastages of our irrigation investment. In the I Plan the gap between irrigation potential and irrigation utilisation was 1 million hectares and at the end of the current VII Plan it is 9 million hectares. To counter this, substitutional irrigation is being tried, under which minor irrigation works are being developed in the villages of major and medium commands. Further it is estimated that the ultimate irrigation potential of major and medium irrigation projects in the dry land agricultural areas (minor irrigation has very limited scope in the hard rock areas) is around no more than one third of the total cultivated land.[8] But this also reinforces the importance of ensuring an economic and effective use of water by the farms through a programme of system of water distribution. Can the Plan - 5year and annual - measure the efficiency of irrigation net by the potential created but the number of waterings per season?

The second programme is both anti-drought and of equal importance in arresting the low and declining trend of the annual average growth rate of agricultural production (it was 3.2 per cent in the IV Plan. 4.56 per cent in the V Plan, 1 per cent in VI Plan - (excluding 1979-80 it was 3.6 per cent), and around 2.6 per cent in the first 3 years of the VII Plan. This programme is one which decentralises both planning and implementation of agricultural and foodgrains production. A start in this regard has been made in the drought year with agro economic regional planning, where agricultural planning was launched in 6 regions

of the country - the middle Gangetic plain, the lower Gangetic plain, the three regions of the Deccan Plateau and the Hills and the Himalayan regions, the western dry region and island regions. A further development of this decentralization trend is the agricultural planning for the country based on the 15 broad agro climatic zones into which the country has been divided comprising some 300 sub zones, and now they are dealing, with the help of an expert committee for each zone, with the problem of land and water development, optimal land use and crop plan for that zone. But the zone and even the sub zone is too lumpy in that it lumps together for instance wet and dry farming region, semi dry and semi wet areas in each zone. Hence the next stage is to let each local body within each zone undertake the agricultural planning, target setting and execution, within the resources available to it (both devolved and raised by itself), in accordance with its endowments and possibilities.

If water harvesting planning, like other parts of agricultural planning, is done at the level of the local bodies, then the kind of misleading broad generalisation made by the Planning Commission that "studies show the high returns to percolation tanks and village ponds"[9] on the basis of which liberal assistance from the special allocation for irrigation is recommended can be avoided. Because in actual practice, ponds have proved unproductive and the results from percolation ponds have been unreal because a) these sources (tanks and ponds) can reach to a very limited extent the cultivated land (to the extent of 10 to 15 per cent), b) water in them is often available at the

wrong time and not available when needed by the farmers, and c) the rate of percolation is rather high so that wells are needed to recover the percolated water. In this connection of local level water harvesting, it is suggested that water distribution among farmers be, not on the basis of their land holding as it is at present but on basis of the number of members in a family. The Pani Panchayat uses this principle - allocating half acre under irrigation per head in the households which gives each farming household "a minimum of assured yield of foodgrains or lightly irrigated cash crops, which in turn ensures a minimum stable income. This is crucial not only for the sake of equity but also in the interest of proper use of the remainder of the unirrigated crop land. These lands produce a low and uncertain yield of some millet most of the time. There is today experience to suggest that the annual yield from such land will be greater if put to alternative uses like growing fuel wood trees, dry horticultural plants and types of grass for animal husbandry".[10] There is here the problem of the long gestation period and some risks of animal mortality. To try out these alternative land uses, the farmer needs the assurance of a subsistance minimum which his share of irrigated land gives him.

It is important to bear in mind that the problems of low production and low growth are not only technical and scientific. They are in our country based on social and socio political issues like conditions of land tenure and land ownership, which are as important for improved agriculture as irrigation and quality of seeds. This is brought home by the fact that in 1989

seven peasant and farm workers organisations announced that they would intensify the struggle for the implementation of land reforms by occupying distributable land from July 13. They point out that over 63 million acres of land - ceiling surplus, benami, cultivated wastelands, bhoodan and forest land - have been identified by the government for distribution over the years, but only 45 lakh acres have been distributed so far - with only West Bengal, Kerala and Tripura seriously pursuing the programme. Thus improvement of agriculture and its yields is not only a technical matter. It is also a matter of social structuring and political will. In agriculture, as in the rest of the economy, the structure of production and the structure of assets (land) ownership are interlinked.

The procurement policy in 1988-89 and the following year and the buffer stocking operation also raise questions. On procurement, as 1988-89 was a year which witnessed a peak of agricultural and foodgrains production, the very poor procurement of wheat and rice which together amounted to 10 million tonnes for the year needs attention and investigation. That performance seemed to be repeated for the current year 1989-90 at 16 million tonnes. Apart from questions of the stock piling of grains by traders and well to do farmers which may account for part of the problem, resulting in foodgrains stock being 10 million tonnes in 1988-89 and 9.4 million tonnes in 1989-90 against the agreed buffer stock of 12 million tonnes and operational stock of 10 million tonnes, there is also the question of the procurement price structure which as far as certain regions like those of

regions 7, 9, 10, 13 of the 15 regions as classified by ICAR and the Planning Commission which are the low agricultural growth regions, the terms of trade - both barter and income - have been moving against the farmers. One way out of this impasse caused by the deteriorating terms of trade, which is the obstacle to the farmer adopting the reforms mentioned earlier, would be to abandon the procurement policy of a single uniform procurement prices structure for all regions - the high growth, the medium high growth, the medium low growth and low growth regions and develop a differential procurement price policy for different regions. In a sense this would be legitimising what is happening today. In July 1989, against a procurement price of wheat of Rs.183 per quintal, the price in Haryana was Rs.216, in Punjab 212, in UP Rs.240, in Rajasthan Rs.310, in Bihar Rs.315, in Maharashtra and Gujarat Rs.320 and in West Bengal 330.

The rather heavy imbalance in the spatial pattern in the country's foodgrains and cash crops production continues in 1988-89 and 1989-90. In foodgrains 4 states Punjab, Haryana, West UP and Andhra Pradesh which were contributing 28.7 per cent of the country's food production in 1973-74, in 1988 contributed 72.6 per cent, while the contribution from the rest of the country declined sharply, particularly that from the Eastern states from 22 per cent in 1973-74 to -8.1 per cent in 1983-84 and 6 per cent in 1988-89 because of the special rice production programme: there is a similar imbalance in the cropping pattern as between wheat and rice on the one hand and coarse cereals and pulses on the other, and as between the latter and the cash crops of sugar

and cotton. Whether the cropping pattern suitable to each of the 15 agro climatic regions now being developed and being intensified for the VIII Plan will correct at least to some extent the imbalance in the cropping pattern and also the balance between the cropping pattern and non crop based agricultural activities such as forests, animal husbandry and fisheries remain to be seen.

Oil Seeds

In regard to oil seeds and edible oils three important developments may be noted at this mid year point. First the yield for the 1988-89 oil year was a record 160 lakh tonnes due mainly to the bounteous monsoon and the infrastructure that has been built to take advantage of the favourable weather. The 1989-90 season also enjoys a better monsoon and the production for the year may be placed around 200 lakh tonnes.

Here the fit between, the Mid year forecast and actual realisation is quite close as the following table shows:

Table: VI

	Mid Year Review	Actuals reported by Dept of Agriculture
1985-86	116 lakh tonnes	108 lakh tonnes
1986-87	114 lakh tonnes	113 lakh tonnes
1987-88	125 lakh tonnes	124 lakh tonnes
1988-89	160 lakh tonnes	
1989-90	165 lakh tonnes	

A second issue how the integrated edible oil policy

announced on January 1989 whose main elements were a) creation of oil seeds buffer stock of 5 lakh tonnes: b) a price band ranging from Rs.20,000 a tonne as minimum to Rs.25,000 as maximum, within which oil seed prices can fluctuate: c) review of imported oil prices distributed through the Public distribution system: d) supply of inputs and technology to oil seeds farmers: and e) establishment of a high power committee to monitor production, import, distribution and pricing of oil seeds. In the 6 months since the declaration of the policy, which was needed and was well conceived, the two major elements have not been implemented. The price band, at the start of the marketing season has been too high at the minimum, resulting in a poor procurement, and too low at the maximum towards the end of the season, as a result of which the government has had to revise the band to Rs.18000 - Rs.22000 a tonne in July 1989. The other element is that the buffer stock has not been created and has not been available to offset the price fluctuations.

Third an important development is the sharp cut in the import of edible oils in 1988-89 as a prelude to its elimination. In fact in 1988-89 imports were reduced to Rs.400 acres (8 lakh tonnes) from the previous year's Rs.1000 crores. For 1989-90, the target was to cut imports completely, but the tight situation for groundnut oil and palmolien in June/July led to the decision to import 1 lakh tonnes. The major part of the imports in the past went to the vanaspathi industry which every Mid Year Review[11] has argued against: now vanaspathi is on all four with other refined oils and competes with them for the needed

unrefined oils in the market. It is interesting that the vanaspathi producers association should now protest loudly at the decision to import 1 lakh tonnes palmolien aimed at keeping prices down. The other smaller part of the imports were chanelled through the public distribution system, which again the past mid year reviews have pointed out to be unnecessary because the imported oils are being sent to the public distribution outlets in oil surplus states. With the clearing up of this situation, exports of soya bean oil and cakes, rice bran, ground nut and castor oil should be able to take advantage of the favourable international prices and earn Rs.700 -800 crores this year.

Plantation crops

Among plantation crops, coffee faces in 1989-90 a special problem. During 1988-89 coffee production will be 2.16 lakh tonnes, which with the carryover stocks of 35,000 tonnes, gives a total availability of 2.51 lakh tonnes. Of this 60,000 tonnes could be used to meet domestic demand, leaving 1.91 lakh tonnes for exports. On July 4, the International Coffee Organisation reported that the International Coffee agreement negotiations have broken down and that international coffee quotas were suspended. The Indian reaction to this is mixed. The coffee Board chairman welcomes this because he feels that India can now export more than the 52,000 tonnes allocated to it. There are others who feel that India will lose in a free for all competition with major producers like Brazil, Colombia, Gautemala, and that even India's traditional non quota major

export receiver, USSR is being poached upon by Brazil, which sold last year soluble coffee worth $43 million in exchange for Russian Vodka. The government seems to belong to the first group and has fixed the 1989-90 target at 1.6 lakh tonnes which will earn Rs.500 crores compared to the 1987-88 export of 97,000 tonnes for Rs.339 crores. The first effect of the collapse of the International Coffee Agreement in early June was a steep fall in coffee prices from 1,129 a tonne to 810 . But by mid July, coffee prices began to recover to 820 a tonne and the rise is continuing. For 1989-90, 59,000 tonnes have been contracted for export to the ex non quota countries, leaving a surplus of 1.41 lakh tonnes. The Coffee Board states that it has already sold 60,000 tonnes. The problem in the domestic market is not only the stagnancy of the domestic coffee demand, but domestic coffee prices are about half that of international prices. So it is only at the end of the financial year that we will know how successful the coffee board has been in increasing the country's coffee exports.

<u>Industry - Manufacturing</u>

At this mid year point, some six major elements in the industry/manufacturing field will be reviewed:

a) the rate of industrial growth forecast for 1989-90,

b) the comparison between the Mid Year Review forecasts and CSO/Economic Survey data on actual industrial growth rate,,

c) the effect of post 1985-86 'liberalisation'

on industrial/manufacturing growth rates, and their content,

d) the varying computation of industrial growth rates by Central Statistical Organisation (CSO), National Account Statistics (NAS), Economic Survey (ES), and Annual Survey of Industries (ASI),

e)the question of ICOR during the VII Plan and

f) some aspects of the manufacturing sector in 1989-90.

The industrial growth rate for 1988-89 as reported by CSO's quick index is 8.8. The 1989-90 is likely to be 9 to 9.5 per cent on the basis of the good agricultural record for both years and the power position. However CSO's quick index reports a sharp deceleration of industrial growth to 2.4 per cent in April 1989 and again to 1.5 per cent in May 1989, with manufactures recording - 1.5 per cent for the 2 months. It is hoped that these are temporary set backs. The detailed break.down between the 3 main sectors for the 2 years is given in the table below:

Table:VII

(Percentage)

	Mining & quarrying	Manu-facturing	Electricity	Overall
1988-89	7.8	8.9	9.4	8.8
1989-90	8.4	9 to 9.3	11 to 12.0	9 to 9.5

The 1989-90 growth rate shows a marked increase over 1988-89 because electricity with a weight of 11.43 due to the good monsoons and full hydel reservoirs will contribute to a high 11 to 12.0 per cent growth. If the 1989-90 forecast is confirmed, then the Seventh Plan industrial growth rate will be 8.7 per cent and the manufacturing growth rate a high 9 per cent.

Turning next to the juxtaposition of the Mid Year Review's forecasted industrial growth rate for each year and that actually registered for that year as reported by CSO and/or the Economic Survey, the table below gives the requisite data.

Table:VIII

(percentage)

	1985-86	1986-87	1987-88	1988-89	1989-90
Mid Year Review	6.7	7%	6.9	8.6	9 to 9.5
CSO/Economic Survey	8.7	9%	7.3	9.3	

Here again the picture is somewhat mixed, with a tendency of the Mid year review to forecast a lower annual growth rate than what is attained, the difference being rather large at 2 per centage points for the first 2 years of the Seventh Plan, the fit being closer for the third and fourth year (the difference being between 0.4 to 0.7 points), indicating improved analysis and a base for forecasting for these years.

The next issue to be examined is a major issue on which there have been repeated requests in past mid year reviews, particularly in the last one for 1988-89, with regard to the effects of "liberalisation" on the rate and content of industrial

growth. On this there are some five preliminary questions that call for comment before taking up the main question of the effects.

First by 'liberalisation' is meant the changes in policies/deregulations in regard to

a) the industrial control system built up over near three decades through the Industrial Development and Regulation Act of 1951, the Monopolies and Restrictive Trade Policies Act of 1969 and the Foreign Exchange Regulation Act of 1973, in regard to

b) selected industries,

c) taxation,

d) capital issues,

e) imports and exports,

f) the private sector,

g) credit (to a lesser extent), and

h) concern for the environment (in token ways).

Second these changed/reformed policies which are brought together in this note have not been conceived and planned as a policy package. They should have been so planned, but instead have for several reasons, mainly political, come out in bits and pieces, involving stop and go tactics in the form of modifications or even reversals from time to time. The result is that

it is very difficult for any one even with the help of computerised data to know precisely what the position on any issues is at any given point of time.

Third, there is something of a conflict in the Seventh Plan formulation on these policy changes and the Plan objectives of improved competitiveness and self reliance. This conflict is seen in the Plan provision for industry to contribute to the extent of a third of the total income generated which is the value of its output, while it is expected to contribute only a fifth of the value added.

Fourth the 'liberalisation' policy did not begin with the Seventh Plan. The policy is usually divided into phase I as the initial liberalisation phase from 1962 when export subsidies were introduced to 1972 with the floating exchange rate of the Rupee, phase II as the further liberalisation phase from 1978 of the Alexander committee report on foreign trade to 1982 with the K N Raj working group report on savings, and phase III ranging from 1984 with the Abid Hussain committee report to the present annual changes in licenses, tariffs etc introduced usually at budget time.[12] In fact the first proposal for a free licensed "delicensed" area of the economy traces back to

the much maligned Dutt committee of 1969. Similarly the opening up to the private sector goes back to the 1973 Government of India announcement titled "Industrial Policy: Government Decisions" which recently have been further pushed further forward because of the government's resource crisis. Since 1984-85 and the start of the Seventh Plan, the changes taken all together have been accelerated in rate and widened in scope.

Fifth there is the usual gap between intention and realisation. Many of the announced reforms are bold and innovative, but in executing them there are a number of conditions and exceptions that nullify the intentions. For instance, in the case of industries whose fixed assets will not be more than Rs.15-50 crores, which were exempted from license or the 33 industrial groups which have been "broad banded", there are many discretionary powers in the hands of the government, and the time taken to obtain sanction and endorsements, or even, apparently simple registration for delicensed units involve a deal of delay and harassment.

Finally there is the basic structural issue of whether these measures of 'liberalisation' can

> be part of a reformed and reforming society, where the wide gap between those with assets and the assetless, between the few well to do with high incomes and the masses with low or sub normal incomes and the, concentration of economic power in a few business or lended families can be corrected becomes crucial. The interlinkage between the structure of industrial production - its direction and content - and the structure of assets and income distribution determines the course and effect of these "returns".

Turning to the main substance, namely the effect of these policy changes on industrial growth and its contents there are a number of issues to be noted.

First there is statistical evidence that these changes have led to a sharp increase in the growth rate of the production of consumer goods and consumer durables. Thus while overall manufacturing growth rates for the period 1985-86 to 1988-89 is an average annual 7 per cent, the growth rate for consumer goods and consumer durables is over double that at 14.7 per cent per annum. Within this overall growth data, conssumer electronics between 1981 and 1988 grew at a compound growwth rate of 38.6 per cent per annum, increasing its share of total electronics from 28.7 per cent to 38.1 per cent in that period. The table below brings out these features.

Table:IX

	1985-86	1986-87	1987-88	1988-89
Consumer Goods	12.5	7.1	7.4	9.3
Consumer durables	18.7	18.9	7.6	16.7
Consumer nondurables	11.5	4.9	7.4	10.4
Food Products	4.7	6.1	4.3	6.1
Textile Products	1.8	-22.8	5.3	11.8
Paper & Paper products	12.6	9.9	1.9	12.4
Leather and fur products	21.1	5.0	4.4	8.1
Chemical & Chemical products	8.1	13.7	14.5	18.2
Cars	99,000	72,100	151,875	1,60,000
Two wheelers	5,04,000	9,80,000	14	16,00,000

Source: Economic Survey and Annual Report, Ministry of Industrial Development.

The changes/reforms have increased the rate of growth of consumer goods production because the firms, specially the large ones, are able, under this system, to diversify their production which is for them the consumer goods area, to change their product mix to respond to the market signals, as well to enter the previously reserved product areas for the small sector. This is further helped by the banking system using their excess liquidity to finance consumer credit (the various bank cards) and the lend lease arrangements.

Another facet of the new policies leading to high manufacturing growth is that with the change of the base of the industrial index from 1970-71 to 1980-81 some 95 industries have been replaced in the new index by 96 new (some "sunrise" industries which have increased value added per unit of physical

output. This is also supported by the data for the registered manufacturing sector set forth in the Annual Survey of Industries for 1982, 1983, & 1984, which is certainly continuing into 1985-86 to 1988-89. The compilation of the small scale sector in this statistical compilation is not impressive, in fact the combination of formal and informal sectors shows a lower growth rate than that of the formal sector.This means that the small scale sector is still not really represented in the index, and when the data base allows it to be adequately included, there will be a further rise in the rate of manufacturing.

The policy changes in the industrial field coincided with a sharp rise in public expenditures on defence and public administration, which though it did not lead to increased employment, led to a rise in the incomes of the upper and middle classes. These income increases have in turn resulted in the increased demand for manufactured consumer goods - both durables and non durables - leading to the rise in the growth of these manufactures, which was helped by the policy changes summarily described as 'liberalisation'. This is part of the rising rate of demand growth in the economy noted since the start of the seventh Plan. There was during this period, excess of liquidity caused mainly by the budget and finance deficits, which taken along with stagnation in foodgrain prices, found expression in the funds flowing into the growing industrial demand, producing the high industrial growth rates at some cost to the agricultural sector, whose term of trade were shifting against it and in favour of industry (as noted earlier).

The liberalisation policies also included liberalisation of imports (both in terms of physical regulation and tariff and non tariff barriers) which enabled the technical upgrading of industries, leading to an increased rate of production growth. This efficient growth promoted by the import liberalisation policy was financed by current account deficits which have been a feature of the Indian economy since the I Plan, which will be tabulated later, and which was caused to the extent of 40 to 50 per cent on the average during each of the seventh plan years by such imports as the table below shows:

Table:X

(Rs crores)

	1985-86	1986-87	1987-88	1988-89	1989-90*
Total imports	10,895	12,452	15,741	20,281	27,000
Machinery	4,084	6,279	6,105	6,671	7,500
Crude Oil & Petroleum Products	4,961	2,773	4,038	4,178	6,000

Source: DGCI, Ministry of Commerce.
* anticipated

There is no doubt that import liberalisation contributed sensibly to the rise in the rate of industrial growth.

The questions that arise in this identification of the 'liberalisation' policies with the higher industrial growth rates include : a) the extent to which the change in the industrial base from 1970-71 to 1980-81 and the accompanying various replacements of items and weights to be referred in the next section account for a part of the alleged increase in the industrial growth rate: b) the problem of the disassociation between industrial and agricultural growth, the latter declining to less than 2.5 per cent: c) the limits to the streamlining and dismantling of controls and regulations in producing higher industrial growth without a continuous and continuing increase in demand, which would have involved the increase in incomes percolating down to the lower ranges, the increase in fixed capital formation and the improvement in the industrial infrastructure: d) the effect of these policies in promoting cleverness and deceit in such matters as reindorsement of excess

capacity, regularisation of unauthorised capacity, and in fact in regard to the very means of computing capacity: e) the result of the changes on the growing underground economy, to cut and divert which was one of the main justification of the various tax concessions: f) the serious consequences of the rapid growth of import intensive industries which the policies are promoting on growing balance of payments and accounts deficits, with the further consequence of increased foreign borrowing, interest and capital repayments, debt service ratios and the burden of foreign debt: g) there are also the consequences on the employment situation that the policies involve in developing industries in the organised sector which are: a) capital intensive and (b) divorced from goods which are sensitive to draught induced reduction in income (what the annual report of the Ministry of Industry calls "structural transformation" in the industrial sector)[14] with little effect on employment creation, income generation and basic needs fulfilment; and finally h) the structural and contents issue of who is this growth for, as it is unrelated to the needs and demands of the mass of the people, numbering over 300 million by official reckoning, who are living in poverty and who therefore have no access to this growing manufacturing sector.

A fourth problem just referred to in the above discussion on the 'liberalisation' policy changes and their effects on manufacturing growth is not only the questions relating to the composition of the industries, but equally the varying computations with regard to the growth of the manufacturing

sector by CSO (through the Index of Industrial Production) and the Annual Survey of Industries to which the Economic Survey 1985-86 and the Ecconomic Survey of 1986-87 call attention as reproduced in the Table below:[15] The table stops at 1982-83 but can be extended to 1983-84 as the ASI data for that year[16] is now available at 205.2 and 151.1, which , however, make no difference to the computed growth rate in the table.

Table:XI

	Annual Survey of Industries	Index of Industrial Product (CSO)
1974-75	155.0	101.8
1975-76	115.8	106.6
1976-77	127.6	117.4
1977-78	140.6	122.8
1978-79	156.5	132.1
1979-80	156.9	128.8
1980-81	159.0	133.6
1981-82	176.1	143.6
1982-83	199.1	147.1
Annual improved growth rate for 1974-75 to 1982-83	8.0	4.4

Even admitting that the two series - those of the Annual Survey and the Index of Industrial Production are not really comparable because of the different base years, the estimation procedures and selected items, the higher growth rates recorded by the Annual Survey are reflected also in the National Account Statistics 1989,[17] which in that latest issue uses 1980-81 as its

base and provides broad indications in statements 13 and 57 and 58 which confirm broadly the trend indications by the revised Industrial Index. Statement 13 summarises the data in statements 57 and 58 showing a) manufacturing gross value added in constant prices for the period (1950-51 to 1986-87) was 8.3 per cent compound, b) registered sector growth rate for the period was 10.4 per cent and c) the unregistered sector growth rate for the period was 5.3 per cent. A further correction is that the National Account Statistics for 1987 which provides data on the 1970-71 shares shows a much lower share of the gross value added by the unregistered manufactures compared to the revised 1980-81 base at 37.6 per cent and 42.9 per cent. This means that without being able to accept the somewhat euphoric and uncritical description of the superiority and strength of the revised index of Industrial growth as set forth in the Economic Survey of 1987-88[18] and repeated in that for 1988-89,[19] the rise in the growth rate of manufactures particularly of the registered sector during the 80s along with there being no change in the long term stagnation trend in industrial output[20] since the mid sixties can be accepted.

There is next the question of the level of Incremental Capital Output Ratio (ICOR) attained in the Seventh Plan, on which a debate has been set by the Planning Commission's statement that the ICOR for the VII Plan is 4.6 and should be reduced to 4.35 for the VIII Plan. ICOR is used, given the rate of growth aimed at, to estimate the level of domestic savings (as percentage of GDP or NNP) that is needed and hence there is a

somewhat heated debate over the question of the level of ICOR in the VII Plan. The Planning Commission view is that it was 4.6. Some recent computations by CSO show that it is nearer 3. Some members of the planning commission who want a high growth rate are latching on to this lower figure. The limitations of the instrument and the futility of the ensuing debate needs to be noted. The ICOR is that derived from a simple growth model, called the Harrod Domar/Cobb Douglas model, whereas the real economy has many other parameters such as the rate of inflation, the balance of payments, the public sector's performance which are not included in that model. Second the data for computing the ICOR for the Seventh Plan is the data which is available only for the first 3 years 1985-86 - 1987-88 and for this period there are varying ICORs for varying production areas depending on their capital intensity, gestation periods, etc where aggregation is both misleading and results usually in under estimation. Third there is some confusion in regard to the use of the old series with the 1970-71 base and the new series based on the 1980-81 base. When at a recent meeting of the Indian Planning conference called by the Planning Commissions, the question was asked as to how the ICOR level of 5 to 5 5 as set forth in the VII Plan document had been reduced in the Planning Commission's document on Eighth Plan persp ctive to 4.6, the answer was that the previous figure was based on the old 1970-71 base series and the new figure on the new 1980-81 base series,[21] which does not throw much light on the revision and the transition. Fourth what evidence there is from the National Accounts Statistics & CSO reports shows a rising rather than a falling trend of ICOR. ICOR

in agriculture was 2.18 during 1951-52 to 1959-60, rose to 4.22 during 1970-71 to 1979-80 and declined to 3.17 during 1980-81 to 1983-84. In mining it rose from 2.59 in 1951-52 to 1959-60, to 9.98 in 1980-81 to 1983-84. In manufacturing, it increased from 4.47 in 1951-52 to 1959-60 to 8.20 in 1970-71 to 1979-80 onto 14.36 in 1980-81 to 1983-84. The average ICOR for all sectors was 3.93 in the 1950s, 5.97 in the 1970s and 5.16 in 1980-81 to 1983-84.[22] Again using the 1980-81 base data, the Sixth Plan ICOR shows up as 3.8, and that for the first 3 years of the Seventh Plan as 4.08. With the rising capital intensity, and the rising ratio of gross to net capital formation, this long term trend of increasing ICOR, including that for the Seventh Plan needs to be borne in mind when planning the manufacturing sector and the overall growth rate for the future.

Turning finally to some aspects of manufacturing performance as at this mid year point of 1989-90, the performance reports from both the public sector and private corporate sector units at the mid year point are encouraging. In the case of the public sector enterprises, the Bureau of Public Enterprises reports a) a record increase of 38 per cent in the net profit of the enterprises at Rs.3025 crores for 1988-89 which follows the net profit of Rs.2187 crores 1987-88, b)for the first time the non petroleum sector made net prufits for the year (1988-89), c) the number of profit making companies rose to 120 from 115 in the previous year, and the number of loss making units declined to 94 from the previous year's 102, d) the improvement in net profits of the non petroleum sector was Rs.524.71 crores during the year

compared to the previous year's Rs.382.47 crores, e) gross sales increased by Rs.6588 crores to Rs.87,955 crores, f) better working capital management resulted in a reduction of inventories by over Rs.900 crores, g)internal resources generation which helps attainment of plan objectives was Rs.8500 crores against the previous year's Rs.7022 crores, and h) the previous year's loss making companies which turned the corner and made profits were steel, minerals and materials, transportation services and agro based units, while the normally profit making petroleum, power, telecom and heavy engineering enterprises increased their profitability. This positive public sector profile is important, both as a long term trend and as a counter to the proposals for "privatisation".

There is an equally positive profile with regard to the private corporate sector in the surveys of RBI, ICICI, CMIE and IIPOR. Taking the RBI report on the performance of 1053 private sector companies for 1985-86, their record includes an increased growth rate of the value of production from 14.1 per cent in the previous year to 16.0 per cent, sharp increase in gross profits by 33.3 per cent, operating profits by 71.9 per cent, post tax profits of 38.3 per cent, a fall in the percentage of interest as percentage of total profits from 3.4 per cent to 3.2 per cent in 1985-86. The two negative points in this otherwise encouraging record are a) a rise in the ratio of manufacturing expenses to total expenses from 70.4 per cent in 1983-84 to 70.9 in 1984-85 and 71.5 per cent in 1985-86 for all the companies, and b) a sharp increase in inventories to 17.7 per cent against the

previous year's 10.1 per cent. This is contrary to the good management record particularly of borrowed funds and the increasing reliance on the capital market. A proper mix of loans and equity funds is essential to keep costs down, but even more important is the efficent use of funds which keeps inventories to the minimum and ensures the conservation of energy. These are pointers to the future.

With regard to the sources of financing of their operations, budget support for the public sector which was 87.5 per cent of the investment in 1984-85 declined to 59.2 per cent in 1987-88, the balance coming from extra budgetary sources - bonds, external borrowing, deposits and equity participation: for the private sector which envisaged a gross investment of Rs.54,236 crores in the Seventh Plan in 1984-85 prices, made up of a) Rs.28,779 crores from own resources, b) Rs.2000 crores from external resources, c) Rs.8200 crores from financial institutions, and d) Rs.15,191 crores from the household savings sector, the actuals in November 1988 in 1984-85 prices were i) Rs.4300 crores from gross savings of the sector in 1985-86, Rs.4500 crores in 1986-87 which means th.t for the Seventh Plan own savings will be short by Rs.6280 crores at Rs.2250 crores, ii) Rs.15,000 crores from financial institutions which is a 80 per cent increase over what 'as envisaged, iii) Rs.18391 crores from the household sector savings which represents a surplus of Rs.3200 crores and iv) an uncertain amount from external sources because of the balance of payments deficit pressures. This should be compared with the investment computed by RBI, using the

Rengarajan methodology, of Rs.4716 crores of their capital expenditure in 1986 rising to Rs.7624 crores in 1989 which becomes Rs.9900 crores when bill finance and capital expenditures for that year are added. Thus the source of financing of both the public and private sector companies are near the target and are flexibly developed and developing.

On particular industries, in the capital goods area there was a movement forward in regard to engineering exports which jumped last year, 1988-89, to Rs.2258 crores from Rs.1402 crores in 1987-88. This 58 per cent increase which is higher than the 27 per cent overall export growth was due in part to the incentives in the form of tax exemption of export profits and increased depreciation allowance, but also to increased operational efficiency and reduction of production costs. On this basis, the 1990-91 target of Rs.5700 crores seems attainable, and can even be surpassed if in addition to the 350 small and medium enterprises now engaged in exports, at least 50 per cent (instead of the current 10 per cent) of large units enter the field. There is no problem in regard to machine tool production of the conventional variety, of which the supply is adequate. It is in the area of CNC machine tools which are less than 10 per cent of total machine tools output and for which there is heavy reliance on imports, that help and more intensive effort is needed. In the 1988-89 budget the government reduced the import duty on CNC tools and its parts and accessories from 80 per cent to 55 per cent. In September 1988, it reduced the excise duty on CNC machine tools from 15 to 5 per cent. These

incentives together with delicensing and broad banding have not led to a noticeable increase in domestic production of CNC tools, on which major reliance is still placed on imports. There are contrary pulls in this field. On the one hand, the technological upgradation of many industries demands the use of numerical control (NC) and computer numerical control (CNC) technologies and so their demand is bound to increase. On the other hand, as NC/CNC machine tools are extensively employed, the existing large net work units producing conventional machine tools will have to be replaced, and their talent and skills retrained for production of the sophisticated tools. This is one of the tasks awaiting the lead of HMT and the Central Machine Tool Institute.

The automobile sector has in the last year (1988-89) recorded a spectacular increase in output of the order of 80 per cent in regard to commercial vehicles at 1,90,000 units, a smaller 4 per cent increase in cars at 1,60,000 and a quantum explosion of 15 per cent at 16,00,000 units in regard to two wheelers. This expansion has gone along with technological upgradation, induction of new fuel efficient systems etc. The sector however faces several uncertainties due to rising costs in part due to the continuing depreciation of the rupee (the Japanese collaborators have raised prices 16 times since December 1986) and in part due to some profiteering by producers and dealers, to the slow and tardy process of indigenisation, and various infrastructural inadequacies. At bottom the problem is one of a lack of strategy which can help develop demand for the

product in the protected internal market and the competitive global market. The government attempted to set forth a comprehensive automobile policy which came up against foreign exchange shortages and the drop in demand as a result in part of the 1987 drought. One result of this hiatus in the formulation of the automobile policy is that the 18 projects including 16 with foreign collaboration with Japanese Suzuki, Mazda, Tooyota, etc, French Citroen and Renaud received by the government are now on the back burner, awaiting the formulation of the policy. What is needed in the sector is the continuous updating of technology, a growing and strong components base, the development of exports and infrastructural facilities and a revival of demand.

Textiles still are a major industrial element, forming 20 per cent of the total industrial output of the country, employing 150 lakh persons and contributing 25 per cent of exports. The 1985 textiles policy analysed in the Mid Year Review of the Economy 1985[24] has resulted in a) a higher consumption of cotton from 15.35 million bales in 1985 to 16.35 million bales in 1987-88, b) a rapid growth in the case of blended fabrics, c) yarn production of 1585 million kgs and of c'oth production of 12002 million metres in 1987-88 and d) continuing of the increase of the share of power looms and decrease in that of the composite mills in the production of cloth. A recent study by SITRA on the factors that have led to sickness in the textiles mills concludes that sickness in this sub sector is not temporary or isolated, that it afflicts the older composite mills particularly in Maharashtra and Gujarat, against which the industry has to face

declining aggregate demand for cotton textiles, rapidly changing technology etc, resulting in the recommendation that the unviable mills should be closed and the viability of the others should be strengthened and supported. The study also states that country's cotton requirements will increase by 20 per cent at 104 lakh bales in 1990, to 45 per cent at 126 lakh bales in 1995 and 50 per cent at 152 lakh bales in 2000. The consumption of man made fibres will increase by one third in 1990, by double in 1995 and 2.5 times in 2000. The study points out that 25 per cent of labour now employed by the mills is surplus, and that 50 per cent of the composite mills will not be able to survive in 2000. Consequently their share will shrink to 10 per cent, employment in the total textile sector will be 5 million, of whom more than half will be in handloom and 25 per cent in power looms. It also refers to the current output of textile technologists at 3000 a year which is much higher than what will be required even in 2000. These various indications should now be used to draft a new textile policy which will be more realistic and comprehensive, than the present policy.

The <u>fertilisers industry</u> demands special attention at this mid year point. The first four years of the seventh plan recorded a continuing increase in the production of both nitrogen and phospates from 5.7 million tonnes in 1985-86 to 8.7 million tonnes in 1988-89, with the trend continuing this year. There has been a welcome reduction in imports of fertilisers from 3.6 million in 1984-85 to less than 1 million in 1987-88, but an increase to 1.61 million tonnes in 1988-89, due mainly to fall in

the production of phosphatic fertilisers, as a result of scarcity of phosphoric acid. The major question in the fertilisers area is the question of fertilisers subsidy, which is both at a high level and continuously increasing during the seventh Plan. It increased from Rs.1600 crores plus Rs.323.71 crores as subsidy for imports in 1985-86 to Rs3121 crores and Rs.530 crores in the 1989-90 budget, its share in total subsidies increasing from 12 per cent to 40 per cent. This is a very heavy burden on the budget and the economy, and the question is whether it is needed and whether there is a way out of this impasse. Because of the subsidy which is paid to the producer when his net realisation falls short of the retention price, fertiliser prices have remained constant, despite the rise in inputs costs. But the level of fertiliser prices seems to have little relation to its demand and use. Between 1976-77 and 1978-79 fertilisers consumption increased when the price was high and in the period after 1978-79 there was a decline in fertilisers consumption (except in 1983-84) despite a fall in fertilisers prices.[25] Studies show that a 10 per cent rise in fertiliser prices resulted in a fall of only 2-3 per cent in its consumption. This limited elasticity of fertilisers may in part be due to the fact that it is, as the 26th round of NSS shows, little used by small and marginal farmers. What affects fertiliser use more than its price are such non price factors as the timely availability of credit, the extension system, and the prices of the other raw materials used by the farmer, and feedstock and fuels. Thus subsidies can be phased out gradually

provided the non price factors - credit, seeds, water, fuel etc are made more easily available to the mass of the farmers who are small and marginal farmers.

In the drugs and pharmaceuticals area, there are both movements forward and backward. The movement forward was the policy of delicensing most bulk drugs and formulations which was given effect to fully in 1989-90, and saw a rapid increase in current production. The range and variety also widened during the year. Also, the battle between the Health ministry and specialists who see drugs and pharmaceuticals as part of the human health area against the Ministry of chemicals which sees them essentially as a trade item which results in opposing positions, on what should be included in category I drugs, seemed to moving in favour of the former. On the negative side, most of the UN category of 394 drugs and 52 combination products characterised as dangerous or useless and which have all been banned in industrialised countries are being sold freely by the multinationals in India - with the connivance of India's trade and some medical practitioners. Equally dangerous is the various strategies adopted by the multinationals to side track and circumvent the ban orders of the Drug Controller and the moving of 15 drugs from category I to category II and the removal of some of the most needed 13 drugs out of 25 from price control, which has increased prices to the needy consumers. In the case of the drugs and pharmaceuticals field, there is all the expert advise and policy recommendations that the country needs that is available to the government, which however does not have the will

to act, and prefers to give into the pressures of the multinational drug corporations in preference to meeting the needs of its people. A more recent issue in the drug area for the country is that of the United States of America using the article, Special 301, of its omnibus trade law, calling for improved protection, inter alia, for the products of the US drug and pharmaceutical industry against the background of the Act's wide ranging retaliatory powers to block imports and/or collect heavy damage from those unauthorisedly using US patent processes. The major US charge relates to the widespread introduction of new drugs in India, since patent protection for products in addition to process is not available. The Indian Patents Act 1930 poses the issue from India's side clearly thus: "the basic question is why should India be denied the use of such essential drugs merely because it did not suit the originator. This situation necessitated the Patents Act 1970, after which seven life saving drugs like ampicillin, propranol etc were introduced in the country". Without a credible level of domestic innovative activity, the premature introduction of product patents in response to US pressure will hold back the evolutionary dynamism of the Indian drug industry'. This does not mean that the 1970 Patent Act does not need changes such as defining the role of the Indian researchers, the period of validity for process patents and the encouragement of R&D in the drug industry. The US needs to be convinced that the introduction of product patents at this stage in India is against its interest as much as that of India's.

On sugar the country in in a quandary because on the assumption in January 1989 that the October 1988 - September 1989 sugar season will produce 102 lakh tonnes, the government optimistically announced the export of 3 lakh tonnes. It is now realised that the production for the year is unlikely to be more than 88 lakh tonnes, which is attributed to lower recovery rates in the North and the large diversion of cane supplies to gur and khandasari. In May 1989 the output was only 1.82 lakh tonnes against 6.2 lakh tonnes in May 1988, in the first fortnight of June it was 22,000 tonnes against last year's 85,000 tonnes for that period. Thus the total output for the first 8 months, October 1988 - May 1989, is 86 lakh tonnes against 89.54 lakh tonnes for that period in the previous season. Here there are two lessons for the future. First more reliance must be placed on the expert knowledge of ISMA to avoid unrealistic forecasts of production. Second some control needs to be introduced in regard to the cane prices offered by gur and khandasari producers. Then there is the problem of the start of 1989-90 season. In 3 months ending September 1989, the quantity available will be only 41.70 lakh tonnes against which consumption will be 29 lakh tonnes, leaving only 12 lakh tonnes as carry over for the new season, starting October 1989. To this, the production dur.ng the first 2 months, October and November of 5 lakh tonnes should be added, while consumption for the 2 months will be 16 lakh tonnes. There is talk of importing sugar to meet this situation. This should not be done, because of the country's foreign exchange shortfall. In place, there is

need for a policy to stop increasing the release of free sale sugar and to let its price rise, in order to curtail its consumption to the available supply.

In the <u>leather product</u> field, the developments in 1988-89 being continued and intensified in the current year 1989-90 are rather important. First the industry has emerged as an impressive foreign exchange earner at over Rs.2000 crores for the current year, taking advantage of its comparative advantages in manpower and skills and the closure of the industry in European countries. Second the value added item in the industry are increasingly becoming dominant, the rapidly expanding item being leather garments, which were produced by only 22 units in 1982 increasing to 125 in 1988-89 with a production capacity of 18 lakh pieces. Third the industry is spread widely all over the country, with Madras producing 35,000 pieces, Bangalore 30,000, Delhi 30,000, Bombay 25,000, Pune and Hyderabad 15,000 each and Dewar and Kanpur 10,000 each. Fourth the production units are mainly small scale, which are increasingly becoming mechanised and export oriented. But there is a price to pay and that is being paid by the country for this rapid growth of this highly polluting industry, which is the reason why it is being closed down in the industrialised west, (because they found that the industry could not conform to their environmental legislation), and passed it on to India and the developing countries. The effluence from the tanneries and leather factories are so all pervading, putting farm lands out of use and polluting water and streams, that the UP High Court has ordered that all the

tanneries in the state should closed down. There are 65 large DGTD units using 75 per cent of their capacity on skins and 25 per cent on hides which have no programme for effluent treatment. The situation of the small non DGTD tanneries and factories is much worse. Hence two actions can be undertaken as a counter: large units should be required to import anti polloution devises and equipment as part of their technology imports: and small units should club together as is being done in Vaniyambadi, and establish effluent treatment plants, using the CLRI treatment techniques.

Infrastructure

Power registers some short term gains and faces some serious long term lags. The good performance of the electricity sector in the first 4 years of the seventh Plan has been noted earlier. Particularly in 1987-88 its growth was 7.6 per cent and in 1988-89 8.5 per cent. Further in generation, 1987-88 recorded an increase of 7.6 per cent and 1988-89 an increase of 9.5 per cent. While 1987-88 registered a high 15.4 per cent increase in thermal power, because of the good monsoon 1988-89 registered an even higher 21.8 per cent in 1988-89. The repeat good monsoon in 1989-90 is likely to further increase the share of hydel generation. The all India shortfall in meeting the power demand in 1989-90 and for the previous year is 6 per cent which is not a bad record. Only in the south was the shortfall steeper at 18.8 per cent. On the lags for the future, the Eighth Plan will need 48,000 MW of power, against which the Planning Commission is able to authorise only 38,000 MW, an additional 62,000 MW for the

Ninth Plan are also needed. And then there is continuing imbalance between thermal and hydel generation which should be nearer 60:40 but is of varying proportions ranging around 80:20. A further problem being carried into in the eighth plan is the lack of relation between generation on the one hand and transmission and distribution on the other. The relation ought to be 50:50 as it is in industrial countries, but is here 77:23. This kind of imbalance results in some of the super thermal plants like Korba and Singrauli not being able to use and evacuate the power they generate even as near by regions lack power. There is a problem with indigenous demand and consumption of power machinery. Even as the reduced Eighth Plan target of 38,000 MW is being planned at a cost of Rs.50,000 crores, the order book position for our major power equipment producer, BHEL, stands almost empty. Finally the performance of the State Electricity Boards needs attention in Eighth and Ninth Plans. One of the most disturbing reports on the performance of the state Boards is that of the Comptroller and Auditor General. It reports that "against the VI Plan sanction of 29,665 MW capacity, with an outlay of Rs.19,265 crores, the actual addition was only 14226 MW (50 per cent). The outlay for the VII Plan is Rs.39,272 crores to add 22,245 MW capacity, which is 50 per cent more than that of the VI Plan achievement. The PLF at the end of the VI Plan was 50.1 per cent compared to 55.9 per cent in 1976-77. Distribution and transmission losses increased from 20.44 per cent in 1978-80 to 21 per cent in 1983-84. So while power investments have been increasing, performance has been unsatisfactory. The total commercial loss of the State Boards

rose from Rs.103 crores in 1973-74 to Rs.450 crores in 1979-80 and to Rs.4500 crores in the VI Plan and is projected to go upto Rs.11,757 crores in the VII Plan, due to runaway capital costs and excessive interest and depreciation charges". The report points out that the high costs are due to poor maintenance, excessive staff, high inventories, low PLF and heavy subsidies. "The way forward therefore is clear and must be fully and carefully planned and executed."

<u>Coal</u> In the coal sector there were positive as well as negative points to be noted in 1988-89 continued on to 1989-90. On the positive side, coal production rose for the year at 196.28 million tonnes, with Coal India surpassing its target by 0.9 per cent. The other positive achievement was that labour productivity measured by output per manshift (OMS) increased during the year to 1.18. This was mainly the result of improved productivity in open cast mines. While productivity in underground mines both in Coal India and Singereni remained stagnant, it increased from 1520 kg in 1980-81 to 2630 kg in 1988-89 at Coal India and from 2940 kg in 1980-81 to 5320 kg in 1988-89 at Singereni. The negative points were the rise in the price of coal in January 1989 from Rs.219 a tonne to Rs.249 a tonne. The additional income to the coal mines will be Rs.150 crores in 1988-89 and Rs.450 crores in the full year, 1989-90. The price increase will have a cascading effect on other major coal using industries, such as steel, power, cement, paper etc which is estimated at Rs.5000 crores. The reason given for the increase is the usual one - the rise in input costs and wages.

But the real reason is the poor use of machinery, including the new and sophisticated machinery installed over the last 2 years. The Chairman of Coal India states that a 1 per cent improvement in the use of equipment will give an additional Rs.15 crores. The other negative point is the growing deficit of the industry which as of 1987-88 was Rs.2260 crores, against which must be set the Rs.1010 crores owed by coal consumers, of which over 70 per cent was owed by the State Electricity Boards. There is no excuse for this gap which can and must be closed.

Crude and Gas Crude production which was expected to decline in the last 2 years of Seventh Plan has maintained and even marginally increased its quantum in 1988-89 by 6 per cent at 32.04 million tonnes largely because Bombay High has kept up its production of over 21 million tonnes and is expected to contribute between 27 and 30 million tonnes annually. This will be the result of new discoveries and improved oil recovery techniques. Thus contrary to domestic and international assessments, Bombay High has a much longer life and with installation of water injection platforms, oil production from Bombay High can continue till the early years of the next century. This successful import substitution, however, goes along with a net import of 12.23 million tonnes of crude. It is petroleum products - crude through put - that is the cause for some concern. For the first 9 months in 1988-89, April to December, its production was stagnant, while demand rose by over 8 per cent. Here two actions are needed as a corrective in the Eighth Plan. First there is need to pursue more vigorously and

purposefully the programme of energy conservation, particularly, through expanding the public transport system, reducing licenses for passenger cars and modernising the trucking system, all which will save both petrol and diesel. Second there is need to expand the refining capacity of the enterprises, on which action is being planned in 1989-90. But the real breakthrough which has opened up in 1989-90 and which will mark the Eighth Plan is the use of natural gas to increasingly replace LPG, kerosene and naphtha in fertiliser production and fuel and diesel oil industrial production. Gross production of natural gas - both independent and associated - is 9,635 million cubic metres in the first 9 months of 1989-90 and will pass 13000 cubic metres for the year. There are vast deposits of natural gas waiting to be tapped and harnessed. Even with limited supply of 11,467 million cubic metres in 1987-88 30 per cent had to be wastefully flared. The Eighth Plan should see the development of natural and regional gas grids and provide the infrastructure and transportation facilities to use the full potential of this energy source for power generation, as feed stock for fertiliser production and petro chemicals. ONGC reports that it will generate 40,000 MW of power from gas by 2001. This is a good but small start.

<u>Non conventional Energy</u>

The Annual Report for 1988-89 of the Department of Non conventional Energy sources reports a creditable performance for the year in bio gas development, particularly community and institutional bio gas plants, in further rapid sale and disbursal

of improved chulas, in the increased use of solar photovoltaic cells, in the rapid spread of bio mass programmes, in the use of amorphous silicon solar cells, in the start of wind energy in producing 20,000 MW power and in the growing and successful R&D on ocean energy, magneto hydro propelled vehicles and hydrogen. But the set back in this vital area is with regard to the future on which the report says little. The 20 year perspective plan for the development on non conventional energy sources by 2000 AD has had to be drastically modified, because the increase in plan allocation to reach the various targets is not forthcoming. For an annual energy generation from non conventional sources equal to 250 million tonnes of coal replacement, Rs.43,529 crores was needed over a 15 year period, with the government providing Rs.11,700 crores of that total. For the Seventh Plan, the Department requested an allocation of Rs.1424 crores but was sanctioned less than half of it at Rs.600 crores. The same financial situation faces other energy generation sources through bio mass, wind energy and solar energy. In light of this Seventh Plan resource allocation, and the trends for the eighth and ninth plan resource availabilities, the perspective plan targets are being drastically reduced, with serious consequences for the country's energy future.

Science, Technology and the Environment

The year 1988-89 marked many pluses as well as minuses in the area of science & technology. On the plus side was the launching of the indigenous remote sensing satellite (IRS-IA) in March 1988, and the India-Satellite -IC in July 1988, the linking

of all districts through a computer network by the National Informatics Centre, the new technologies developed on desalination and their first trials in Madras and Gujarat, the development and engineering of telematic technology by C-DOT, the pilot silicon plant of METKEM & IISc developing into the amorphous silicon plant, and the expansion of the five technology missions into 7, through the adding of dairy and wasteland development. On the negative side, are the irrelevance and futility of much of our scientific literature, despite its being 3 per cent of world scientific literature (according to Unesco)[26] and 50 per cent of that of the developing world that the CSIR study high lights, the small impact on practical application that the ICAR funded agricultural research in the 26 agricultural universities have as seen by some of the scientists, the stagnation in the number of licenses and patents based on CSIR technology and knowhow in 1986 and 1987 also brought out by CSIR, the lackadaisical attitude of scientists to the 1989 Annual Science Congress even when the technology missions were being assessed: and the very serious questions raised by the Comptroller and Auditor General about the main hurdle to the auditing of the scientific departments being due to their being unscientific, so that the effects of the large funds ranging from Rs.20 crores in the first plan to Rs.6748 crores in the current plan are untraceable: the waste built into DAE and the irrelevance and the question of priority illustrated by the time, talent and resources expended in irradiation of onions, potatoes, spices and other vegetables. Finally there are questions that

arise as a result of the liberalisation of foreign technology imports in almost every area that is leading to rapid decimation of Indian R&D programmes. Foreign collaboration in such R&D programmes is cooperation between unequals; resulting in the Indian scientific personnel being given a peripheral role in such joint programmes: and using to the full India's low cost manpower and concentrating on risky and potentially polluting and harmful areas which are banned in industrialised countries - as seen in the cases of leather and pharmaceuticals referred to earlier. The future of technology policy is set forth in the 20 years perspective plan and the 12 reports of the Science Advisory Council in fields ranging from lasers and parallel computers to the chemical industry materials, and the priorities in genetic resources which integrates technology with the Plan development, clarifies the relation of technology policies not only with industry but also with scientific policies, concentrates limited resources on targets and avoids adhocism in technology applications.

On the side of the environment, some issues have been referred to in the section on industrial policy. The year saw the serious public concern over the Sardar Sarovar Narmada project, the nuclear plants proposed for Kaiga and Koodangulam, and the floods including the flash floods as to their extent and scope being due to deforestation which the 1987-88 drought gave a further push to particularly in Haryana, Bihar, Punjab & East UP. The year marked no forward movement in ecological restoration. The only gain in this area was the increased public concern as

seen in the media, in publications, lectures and seminars.

Human Resources Development

In human resources development, two elements that surfaced during the year may be noted. First in the field of education at all levels, - none of the targets - whether it be the 30 million illiterate adults in the age group 15-35 being made literate by 1989, or Operation Black Board which was to cover all the 400 odd districts by the terminal year of the Seventh Plan, or the vocationalisation of secondary education wherein the percentage of the enrollers opting for the vocational stream was to be raised from 2.5 to 10 per cent by 1989-90, or the programme to deal with the 20 per cent of the 5000 unviable colleges by 1989-90, or the precise and comprehensive plan of examination reform - none of these targets were attained, and all of them are moving forward into and cluttering up the Eighth Plan. The reason for this poor performance is in every case given as being due to lack of funds, which micro level experience in every one of the areas referred to above does not sustain. Similarly in the field of health and family welfare, against the target of health for all and NRR =1 through the functioning of the Primary Health Centres, sub centres and community centres. 1989-90 is ending with the attaining 50 per cent of the target. To prevent this kind of shortfall in Eighth Plan, the Central Council of Health and Family Welfare wants the allocation for the sector to be doubled from 3.7 per cent in Seventh Plan to 7 per cent in the Eighth Plan. Once more it is lack of resources that is being held as the causative factor which, again, field experience and studies

in UP, Rajasthan, Punjab, Tamil Nadu etc do not support[27]. The other development in this area is important. Instead of the Family Welfare Programme being funded (and planned and directed) 100 per cent by the Union government, as heretofore, the resources crunch is forcing thinking of decentralization of the planning and financing responsibility to the states. The states should move further to place the responsibility on the districts. This is an important move in the right direction.

Savings and Investment

There is general agreement that the rates of gross and net savings for the latest year for which official (CSO) data is available namely 1987-88 show a disturbing fall. Similarly investment (gross and net capital formation) show a slackening. In order to simplify the presentation, savings and investment, in gross and net terms are presented in the table below based on a single source, CSO :

Table: XII

SAVINGS AND CURRENT PRICES

	GROSS								NET							
YEAR	HOUSE -HOLD	% OF GDP	PRIVATE CORPORATE SECTOR	% OF GDP	PUBLIC SECTOR	% OF GDP	TOTAL	% OF GDP	HOUSE -HOLD	% OF NDP	PRIVATE CORPORATE SECTOR	% OF NDP	PUBLIC SECTOR	% OF NDP	TOTAL	% OF NDP
1980-81	21835	16.1	2284	1.7	4654	3.4	28773	21.2	16343	13.2	584	0.5	- 241	- 0.2	16686	13.5
1981-82	23918	15.0	2496	1.6	7254	4.6	33468	21.1	17318	12.0	495	0.3	1396	1.0	19209	13.3
1982-83	23940	13.5	2908	1.6	7822	4.4	34670	19.5	16374	10.2	568	0.4	842	0.5	17784	11.1
1983-84	31088	15.1	3172	1.5	6781	- 3.3	41041	19.9	22556	12.0	407	0.2	-1262	- 0.7	21701	11.5
1984-85	34677	15.1	3991	1.7	6533	- 2.8	45201	19.6	24561	11.8	822	0.4	-2802	- 1.3	22581	10.9
1985-86	41143	15.7	5415	2.1	8592	3.2	55150	21.0	33098	14.1	1303	0.6	-3211	- 1.4	31190	13.3
1986-87	58484	17.2	4924	1.7	8018	- 2.7	63426	21.6	38160	14.5	486	0.2	-5088	- 2.0	33561	12.7
1987-88	54773	16.6	5684	1.7	6193	- 1.9	66650	20.2	40893	13.7	783	0.3	-8714	- 2.9	32962	11.1

CAPITAL FORMATIONS INVESTMENT AT CURRENT PRICES

YEAR	GROSS	% OF GDP	NET	% OF NDG	INFLOW OF FOREIGN RESOURCES AS % OF NDP
1980-81	30867	22.7	18780	15.2	
1981-82	38279	22.8	21820	15.1	
1982-83	37236	21.0	20350	12.7	
1983-84	43558	21.1	24320	13.0	
1984-85	48493	21.0	26409	12.7	
1985-86	61384	23.4	35169	14.8	2.4
1986-87	68521	23.4	38658	14.7	2.5
1987-88	73090	22.1	39402	13.3	2.2

Source: National Accounts Statistics 1987
&
CSO Quick Estimates 1989
&
RBI Report on Currency & Finance 1987-88.

The above table shows 1) a fall in total gross savings in percentage terms by 0.3 per cent terms for 1987-88 over 1986-87 2) a fall in the net savings both in percentage and absolute terms in 1987 over that of the previous year, 3) a fall in gross household sector savings in both percentage and absolute terms in 1987-88 over 1986-87, 4) a sharp fall in gross public savings in both percentage and absolute terms in 1987-88, 5) the only deceleration among three sources in net savings in 1987-88 over 1986-87 being that of the public sector in both percentage and absolete terms in 1987-88. The table also shows a decline in both gross and net capital formation in percentage terms in 1987-88 over 1986-87. The inflow of foreign resources also declined

in 1987-88 over that of the previous year.

Under these conditions, the Planning Commission proposl that assumes for the Eighth Plan a rate of gross domestic saving of 27 per cent of GDP, involving a marginal saving rate of 39 per cent seems unrealistic. The Planning Commission should be required to spell out the means by which it proposes to attain these rates in the Eighth Plan.[28]

Looking at the composition of savings, the household sector not only continues to be predominant, contributing 14.9 per cent to total net savings to make up, along with the private sector's contribution of 1.7 per cent, for the dissaving of -16.6per cent of the public sector. In fact the household sector's savings are higher than the rate of net domestic savings because of the continuous dissaving by the public sector which has increased over the past 3 years and stood at Rs.8602 crores in 1988-89 on Union government account.[29]

The savings of the household sector which are those of individuals and non corporate enterprises show a continuing rise, though as a percentage of NDP there is a fall in 1987-88 as the table below shows:

Table:XIII

Savings of the Household sector

(Rs. crores)

	1980-81	1981-82	1982-83	1983-84	1985-86	1986-87	1987-8
Financial saving	8597	9804	12792	13285	18105	18458	24042
Physical assets	13238	14114	11148	17803	16572	22685	26442

Source: National Account Statistics

The sharp increase in financial savings of the household sector in 1987-88 was due to increased savings in all 6 items except the net claims on government, the highest rise being in net deposits by Rs.3617 crores. The net claims on government comprising small savings instruments, investment in government securities, national rural development bonds, capital investment bonds, national deposit schemes, relief bonds and compulsory bonds which had risen in 1986-87 by Rs.416 crores declined by Rs.499 crores in 1987-88.

How does this record of household savings, particularly the sharp rise in net deposits relate to the finding of RBI's 1981-82 All India Debt and Investment Survey[30] of a sharp decline in the proportion and number of households reporting outstanding loans. Such rural households declined from 42.81 per cent (32.9 million) of total rural households in 1971 to 19.97 per cent (18.7 million) in 1981. This decline is found in all states. The explanation for this decline (along with increased household savings) may be that there was some under reporting of indebted households as in the 1971 survey. Equally the increased incomes

of rural household savers (the large and middle farm households) during the 70s might account for the decline. Another possible explanation is the increasing inequalities in income and distribution, which will be referred to later. Finally the growth of gross capital formation - public and private - in agriculture, particularly agricultural machinery & implements - was lower in the 70s compared to the 60s allowing for both increased financial savings out of the higher incomes resulting from the new technology and lower levels of indebtedness. In other words, the All India Debt and Investment Survey 1981-82 corroborates the savings record of higher financial assets in the form of net deposits, particularly by the household sector.

The overall position is that net savings declined to 11.1 per cent in 1987-88 from 12.2 per cent in 1986-87 and 13.3 in 1985-86. The Annual Report for 1988-89 of the Reserve Baank places net savings (provisional) for both 1987-88 and 1988-89 at 12 per cent of NDPs. Investment also declined to 13.3 per cent in 1987-88 from the 14.7 per cent and 15.9 per cent for the 2 previous the Annual Report of RBI for 1988-89 places provisonally aggregate investment at 14.6 per cent in 1987-88 and 15.3 per cent in 1988-89 of NDP. years. Gross capital formation which takes into account finds earmarked for capital renewal and replacement declined from 23.4 per cent in the 1986-87 to 22.1 per cent in 1987-88, with gross savings showing a parallel decline from 21.6 per cent in 1986-87 to 21.6 per cent.

The savings-investment record for the latest year 1987-88 discussed in this section might well be a pointer to the savings-investment levels of the next two years, including the current year, 1989-90, being dealt with in this, review. The Economic Survey for 1989-90 confirming this uses the somewhat cautious phrase "that the rate of gross domestic savings has tended to stagnate during the eighties". This raises a number of macro economic issues.

One is the question whether we have reached an optimum level of savings - which even these mid year reviews used to boast about in view of the fact that gross savings touched 23.9 per cent of GDP in 1978-79 remained at 22 to 23 per cent during the first half of the eighties. These were among the highest savings level in both the industrialised and developing countries. Any fears that these were due to estimational errors were set at rest by the working (KN Raj) group on savings which, while pointing to the weak data base and its consequences, concluded that "it is doubtful if the estimates for any other country at a similar stage of development have a much firmer foundation"[31] Does this mean that we have reached a level of savings beyond which we can accumulate no further? There is no evidence to this effect. In fact our net rate of savings at 11.1 per cent shows the parlous position we are in, in relation to the capital formation demands of the economy.

A second macro-economic question is the relation between savings and the rates of industrial growth and overall economic growth. Upto 1983-84, the mid year reviews were concerned with

the coexistence of high rates of gross savings (and net savings) and low rate of industrial growth 0.8 per cent in 1976-77, -4.8 per cent in 1979-80, 5.2 per cent in 1981-82 and 1.7 per cent in 1982-83, with economic growth rates for these years being 5.3 per cent, -1.4 per cent, 8.2 per cent and 3.9 per cent. The explanations that had to be offered then was how and why high rates of savings went along with low and declining industrial and economic growth rates. Now the situation is the obverse. In 1984-85 the rate of growth of net savings was 10.9 per cent and industrial growth was 8.6 per cent, in 1985-86 rate of net savings growth was 13.3 per cent and industrial growth rate was 8.7 per cent, in 1986-87 the rate of growth of net savings was 12.7 per cent and industrial growth 9.1 per cent and in 1987-88 the rate of growth of net savings was 11.1 per cent and industrial growth in that drought year 7.5 per cent. Hence a view has now developed - which was referred to under the manufactures sector - that a) industrial growth is an autonomous entity, because industry like the economy has become 'drought proof', b) that because of the various reforms ('liberalisation') introduced, efficiency and productivity have increased in industry evidenced in declining and low incremental capital output ratio, and c) industrial growth no longer needs a high and rising rate of savings. The Economic Survey 1988-89 seems to lend partial support to this view when it states that "it is true that, in this period relatively high growth rates have been maintained despite stagnation in the rate of savings. This was possible because of improvements in capacity utilisation and

productivity". But it quickly corrects itself, with words with which there could be general agreement: "in the medium to long term, a higher rate of overall economic growth can only be achieved through a higher rate of investment, particularly in critical infrastructure sectors. Hence, an increase in the rate of savings is essential for sustaining and enhancing the momentum of growth that has been built up in the past few years".

A third macro economic issue is that while opting for a higher rate of savings and investments, the question should be posed as to what is the purpose of these higher rates. For what will the higher savings and investments be used? The Economic Survey 1988-89 in the above quotation seems to suggest that they will be used particularly in the "critical infrastructural sectors". On this, there will be general agreement. But the large amounts of savings being expended on defence, space, atomic energy in the public sector and on consumer goods and consumer durables in the private corporate sector to meet the unsatisfied demand of the small elite, raise questions as to the need to keep on raising savings.

A fourth macro economic issue is the continuous switch being made in this section between gross domestic savings and net domestic savings which is rather confusing and which could be relieved if only one of them can be used. But both are needed because both represent realities. Gross savings are important because its counterpart gross capital formation includes maintenance, replacement and depreciation which are as essential as the formation of fresh capital assets. In fact before new

assets are created, a first priority is to ensure the maintenance and replacement of existence assets. One of the problems with the gross capital approach is, as noted under the fiscal sector, the tendency of the government and the planning commission to treat depreciation and other replacement funds as resources for the plan which the Annual Plan for 1989-90 in particular indulges in. These are not Plan resources, and if temporarily used should be paid back with the accrued interest. Equally, net savings and net capital formation are essential in order to assess the new assets and capital being formed, but in computing net capital, as the K N Raj committee pointed out, there are two problems that have to be faced. The first is the problem of computing the capital consumption of the previous year, which has given rise to a variety of methodologies and assumptions, which in turn give rise to different estimates of net capital. The other problem is that capital consumption in a given year which is computed to arrive at net capital mayin many cases be much less important than obsolescence of the existing capital stock. Given the rapid rate at which obsolescence is growing in industry, it is difficult to derive the net capital, making full allowance for this factor.

Finally much of the effort to increase savings concentrates on the increase of government savings. There are here a number of problems. First the serious problem of making public sector savings a positive factor against the dissaving registered in gross savings in 4 of the 8 years of the 80s and in all but 2 years in net savings in the 80s recorded in Table XI as

referrred to earlier needs urgent attention. Second increased taxation particularly of the well to do, through income tax, wealth tax, corporation tax and excise and customs duties on non necessaries is essential not only because they will increase savings but also because this is the area which represents the ability to pay taxes rather than overall indirect taxes or revenue deficits which are taxes on the poor majority. It is said that when there is an increase in public savings through taxation, the effects on private savings should be studied in order to see that the rise in public savings is not cancelled by the fall in private savings. This reasoning is based on the assumption that a rise in taxation leads to lower savings and a fall in tax rates to higher savings. There is no empirical basis for this assumption, as the data available shows that private savings and capital formation increase in times of higher taxes because the increases are based on a multiplicity of other factors generically captioned as 'favourable environment'. Further some transfer of private savings and capital formation, which are deployed not in accord with plan priorities but following market signals to the private sector might be desirable as a means of meeting plan targets and improving income distribution.

<u>Foreign Trade and Balance of Payments</u>

The Foreign Trade and balance of payments situation is one of the continuing pressure points of the economy. In regard to foreign trade, the mid year forecast of the export import and trade deficits data and the actuals reported by DGTD and the

Ministry of Commerce were not too far apart as the table below shows:

Table: XIV

(Rs.crores)

	Export	Year	Imports	Trade Deficits
		1985-86		
Mid Year Review	11478		19,195	-7717
DGTD	10895		19,658	-8763
		1986-87		
Mid Year Review	12000		19,000	-7000
DGTD	12452		20,201	-7743
		1987-88		
Mid Year Review	14000		22,000	-8000
DGTD	15741		22,399	-6658
		1988-89		
Mid Year Review	18500		28,000	-9500
DGTD	20281		27,693	-7412

The above table shows that there is tendency in the Mid Year Reviews to round off the export and import figures and for the last 2 years to record a little larger deviations.

Putting together, the trade and balance of payments figures in absolute and percentage terms in Rupees and in SDRs, the following picture emerges as set forth in the table below:

Table:XV

SDRs millions)

	1985-86				1986-87				1987-88				1988-89			
	Rs.	% change	SDRs	% change	Rs.	% change	SDRs	% change	Rs.	% change	SDRs	% change	Rs.	% change	SDRs	% change
EXPORTS	11578	-7.2	8306	-15.21	13315	14.3	7920	-4.5	16396	36.4	9056	14.22	20800	29.0	10529	14.22
IMPORTS	21164	14.7	14988	4.83	22669	2.8	12861	-14.2	25692	10.9	10529	0.19	30900	23.9	12886	8.19
TRADE BALANCE	-9586				-9354				-9296				-10100			
INVISIBLE	-3869				3524				-3003				3100			
CURRENT ACCOUNT BALANCE	-5927				-5830				-6293				-7000			

Source:RBI-BOP with projection for 1988-89

The problems thrown up by the above table are a) the slow movement in exports expressed in Rupees except for 1987-88 and 1988-89, b) the stagnation in rate of growth of exports when expresseed in SDRs even for the above 2 years, and its deceleration from 24.4 per cent to 15.5 per cent in $ terms, c) the rise in the rate of growth of imports expressed in Rupees, the rate nearly doubling in 1988-89 over that of the previous year, d) imports shooting up when expressed in SDRs in 1988-89 against that of 1987-88, e) the negative trade balance being high, above Rs.9000 crores, rising to Rs.10,000 crores in 1988-89, f) the invisibles declining, with a small Rs.907 crores rise in 1988-89 over that of 1987-88, and g) the balance of payments being negative and rising sharply in 1987-88 and 1988-89.

The export items which did well in 1987-88 and the previous years are gems and jewellery, handicrafts, ready made garments, leather and leather goods, cotton fabrics and engineering goods. These are the thrust areas, available for further expansion.

The major import items which figured in 1987-88 and 1988-89 and the previous years are capital goods, machinery and equipment, iron and steel, organic and inorganic chemicals, pearls and precious stones, petroleum and edible oils.

For 1989-90 the exports are reported for the first 2 months, April and May at Rs.4059.67 crores and imports worth Rs.5003.45 crores which gives a trade deficit of -Rs.943.78 crores. For the whole year 1989-90 exports could be Rs.25,000 crores and imports Rs.34,000 crores, with the trade deficit at a marginally smaller

- Rs.9000 crores compared to -Rs.10,100 in 1988-89.

Notwithstanding last year's good export performance, the Annual Report of the Reserve Bank attributes the serious negative balance of payments situation in 1988-89 to : a) heavy imports which have been increasing at 13 per cent per annum; b) the bunching of repayment obligations to IMF, and c) the rise in external debt service payments.

The first means of reducing the trade deficit and reducing the imbalance in the balance of payments is to cut imports which could comprise the following major items (1) machinery, transport equipment and project goods by Rs.2000 crores, 2) petroleum and petroleum products by Rs.1000 crores, 3) iron and steel by Rs.500 crores, 4) edible oils by Rs.500 crores, 5) non ferrous metals by Rs.300 crores, 6) caustic soda, soda ash and chemicals by Rs.500 crores, 7) instruments and opticals by Rs.400 crores, 8) TV tubes and other items of kit culture Rs.500 crores, 9) fertilisers Rs.500 crores, 10) paper and paper products Rs.500 crores, 11) textile yarn and fabrics Rs.400 crores, and 12) cereals Rs.400 crores. The list given above is illustrative and somewhat subjective; the amounts that could be saved which are given in Rs.crores are based on translating the quantitative reductions to value terms. The acceleration in import growth in 1987-88 which Table XIV shows as 10.9 per cent over the previous year's 2.8 per cent, but which the Economic Survey (1988-89) puts at 24.4 per cent are as usual attributed by it to "the lagged effect of a shortfall in domestic production of foodgrains and some other

essential commodities last year, high demand growth this year, a sharp increase in international price of imported metals, chemicals, and edible oils and changes in exchange rates". The rupee pound parity was changed 148 times in 1986-87, 140 times in 1987-88 and 37 times in the current quarter of 1988-89 according to the Reserve Bank. The Economic Survey list of adverse factors explaining the growing balance of payments deficit are "the deceleration of indigenous oil production, protectionist trends in international trade, uncertainties with respect to the flow of remittances from Indians working abroad, bunching of repayment obligations on past loans from the IMF and other sources and the unfavourable climate for concessional external assistance". Against this, it warns that "we must guard against the temptation to see quick savings in foreign exchange through wide spread reimposition of discretionary physical controls as that would take a heavy toll of industrial efficiency and production". This is against the policy of import austerity recommended in this paper and embodied in the 3 year import export policy.

The policy for April 1988 - March 1991 comprises: a) issue of open general licenses upto 31 March 1991 on an annual basis, b) 99 new items of industrial machinery now under OGL, c) 5 items of capital goods shifted to the restricted list, d) special consideration for capital goods imports to exporters of 25 per cent of their production subject to a minimum of Rs.1 crore, capital goods imports by established exporters on the basis of price and delivery conditions - notwithstanding indigenous

availability of such capital goods, e) import of computer systems and OGL of specific computer systems are made available, f) import under OGL of raw materials, components and consumables to actual users, g) OGL items now 944 can be imported by export and trading houses against additional licenses, h) supplementary licenses can be used for importing any other items, i) capital goods industries manufacturing tailor made items can now import 50 per cent of required raw materials and capital goods components immediately on application and balance after approval, j) import of spares including restricted spares, for providing after sales coverage,by consultancy and designing boards, k) state electricity board permitted to import emergency spares under OGL, l) many import items decanalised ,m) exporters entitled to import replenishment licenses to replenish raw materials, with automatic flexibility being built into all REP licenses. n)in addition to the Duty Exemption scheme, the Intermediate Advance Licensing scheme, facility for importing duty free raw materials and components available to Import-Export Passbook holders extended to well established manufacturers, o) the scheme of export/trading houses revamped and liberalised, and p) the export policy simplified and made easy to operate, with minimum controls on control, abolishing of quota and free licensing.

This policy must be seen along with export promotion measures through increased CCS, improved duty drawback, extension of MODVAT to all chapters, interest concession on loans to EOU, liberal Ex-Imp bank credit, IPRS, Productivity Fund, new

institutions to promote export in agricultural processed food products, spices, leather goods, handicrafts and electronics and EPZs to be increased to 5. The state has doubled external commercial borrowing at Rs.2654 crores in 1987-88 and this trend continuing in 1988-89 and in the first quarter of 1989-90 is causing serious debt servicing problems, as noted earlier. It needs to be recalled that export growth is limited by the growth, productivity, price structure and quality of Indian manufactures and the capacity to diversify and respond to the fast changing international markets. The various export promotion schemes can only build on this base which is rather limited.

The policy of import liberalisation which the export-import policy continues and widens has a limited (somewhat negative) impact on capacity use and employment of the concerned manufactures (which will be dealt with in the next section). Analysis of the functioning of the capital goods industry under this regime, for example, shows that the resulting increase in its production costs further limits the size and growth of its market, which further raises its cost in a kind vicious round robin. Thus the import liberalisation policy, which along with industrial policy reform and responses discussed earlier, which are aimed at lowering manufacturing costs and making industry internationally competitive does not do so and does not restructure even the export oriented manufacturing sector, but exposes it, on the other hand, to the fluctuations of the international market. While the high and ingenious tariff and non tariff barriers and bountiful subsidies in the external world

repeatedly referred to by the Economic Survey 1988-89 keeps out Indian manufactures, the policy permits massive inflow of underpriced imports, which has happened in several sub sectors like some engineering products, drugs and pharmaceuticals, chemicals, computers etc where the multinational conglomerates accept temporary losses through under pricing in order to penetrate the Indian market. Hence the import-export policy needs to be recast and made to take a second place, so that domestic production can first be built through greater involvement of the state sector via greater agricultural and infrastructural investment, which will promote internal competition and internal liberalising (delicensing) which will in turn reduce costs, increase employment and boost rural incomes and demands.

The fact of the falling external value of the Rupee raises a number of questions. It was in the 1975-76 Mid Year Review of the Economy at the Annual Assocham Seminar in Bombay that I addressed myself to the question of what I called "the backdoor devaluation" taking place, by the Rupee being linked to the falling pound sterling, and much to the consternation of several top industrialists, traders, administrators and some economists present stated: "I am for choosing our basket of currencies and linking the Rupee to that basket" - (most present at the seminar dismissed the proposal as the hair brained scheme of an academic economist). The Reserve Bank, however, announced the decision to base the external value of the Rupee on a basket of 12 currencies 2 months after that seminar. Now some 13 years after that change

over, its major effects are found to be: i) the external value of the Rupee is falling continuously over the last 5 years in terms of not one currency as in the past, but against each and all the 12 curriencies; ii) the decline against each currency is at different rates: over the 2 years 1987 & 1988 , the Rupee has declined by 28.8 per cent against the pound sterling, by 20 per cent against the Deutsch Mark, by 31.1 per cent Yen, by 25 per cent against the French Franc, by 42 per cent against the Swiss Franc, by 13.0 per cent against the US dollar, by 20.54 per cent against SDR and so on; The 1988-89 Annual Report of Reserve Bank states that between June 1988 and June 1989, "the Rupee weakened by 8.7 per cent against the Japanese yen, 14.8 per cent against the dollar, 9.0 per cent against the DM and 6.4 per cent against the Sterling, iii) these continuous falls and fluctuations, the Reserve Bank in its Annual Report states "the number of adjustments in the rupee sterling rate at 229 during 1988-89 (July-June) was higher than that of 150 during 1987-88 (July-June) caused by frequent adjustments of these currencies vis a vis each other" are disruptive of the country's foreign trade, as neither exporters nor importers can resort to the hedging facilities available to their counterparts in other industrial countries; iv) this hidden devaluation of the Indian Rupee has not boosted the country's exports and improved its trade balance, as the record of the foreign trade over the past decade shows as set forth earlier; v) the demand for devaluation of the rupee by some national and international sources makes no sense as the Rupee has been and is being devalued anyway; vi) the continually falling external value of the Rupee is matched by a parallel

decline in its internal value, the Rupee being worth a little above 11 paise today, having fallen by over 50 per cent in the last decade; (this also means that when exports are expressed in Rupee terms, they get inflated beyond their real atainment) vii) the major reason for the falling external value of the Rupee is the low level of international competititveness of Indian products, particularly the export component, reflecting lower levels of efficiency, technological updating and modernisation, together with the profligate manner in which imports have been continuously increased in the not always necessary areas: further while our import demand is inelastic, the foreign demand for our products is elastic; viii) the major effect of the falling external value of the Rupee is that our debt service ratios in rupee terms have become onerous, as we are repaying in Rupees on interest and repayment of principal, on the average, nearly double of what we borrowed.

These are issues for the medium and long term. An immediate foreign trade problem facing the country is the US Trade and Competitiveness Act 1985, under which its provision, super 301, has been used to identify India (along with Brazil and Japan) as priority countries which follow restrictive regimes against the US. India is charged by the US with a) Trade Related Investment Measures (TRIMS) which prohibit and burden foreign investment and b) setting up barriers to trade in service, specially in the insurance sector. The two charges are true, as they are an essential part of India's development, industrial and trade policy. Taking the second charge first, the

state owned Life and General Insurance Corporations have a monopoly on life and general insurances. A relaxing of the monopoly would create significant opportunities for US insurance companies, but will also have important public welfare and employment effects in India. As to the first charge, TRIMS, this is used by India to ease the balance of payments problems (not very successfully as noted earlier) through a) stipulating that an investor export a fixed percentage of his production (which is regularly evaded), b) obliging him to buy from local sources to promote indigenisation (which the Japanese have demonstrated can be bypassed), c) restricting imports to the amount of equivalent of exports (which is never followed), d) chanelling technology transfers into crucial areas (these are spelt out precisely by foreign technology suppliers), e) limiting remittances (which are regularly exceeded), and f) specififying that a certain percentage of a company's equity only can be held by foreigners (which has not transferred direction to Indians and which are now being relaxed). If negotiations on these offending requirements fail, the US is required to impose higher tariffs on and ban Indian exports. As US is the premier trading and investment partner to India, (the two way trade in 1987-88 being Rs.4920 crores which is 20 per cent of India's exports,) this and any reciprocal act by India will hurt India badly. The US invitation to negotiate on this matter is like the lion inviting the lamb to supper. In this difficult and delicate situation, India should stay her course, and insist on any negotiation being part of the Uruguayan round of GATT. What success the

round will have, remains to be seen.

Another important international development which will affect our trade is the decision of the European Community to form a single state, Europe 1992. Given the fact that Indian trade with European community in 1987-88 was 28.1 per cent in exports and 31.2 per cent in imports, there is need for India to plan to participate in this globalisation of production and trade in Europe. The public and private sector with the help of the export promotion councils and chambers of commerce should work to globalise a part of India's trade, involving a review of planning policies and procedures at the basic level, implementation of a 3 tier duty structure so as to give weightage to value addition and continued enhancement of quality in Indian industry so that it can achieve a 1 per cent share in world trade by 1995 and 2 per cent by 2000. This will make it possible for it to participate in the trade Europe 1992, and avoid the double danger of hasty switching from the exports to domestic market, which is always slow and sticky or having the terms of trade turn against it.

Employment and Labour Conditions

As a start in the upto date - data starved employment area, some facts may be noted at the outset as set forth in the table below:

Table: XVI

1. Population growth is 2.14 per cent per year

   Work force growth is 2.5 per cent per year

2. Employment growth ought to be atleast that

   According to the Economic survey 1988-89 the

   Economy grew at 3.8 per cent in 1986-87
   and 3.6 per cent in 1987-88
   and 8.2 per cent in 1987-88

   Employment grew at 1.7 per cent in the public sector
   0.8 per cent in the private sector

   1988 CEI survey shows a decline in private sector employment from 73.7 lakhs in 1986 to 73.6 lakhs in 1987.

   Employment in the organised sector grew by 1.4 per cent between the 2 years.

   Employment exchange data show that between 1970-1987 the number of job seekers increased by 12.5 per cent per annum and the number job placements declined from 11 per cent in 1970 to 1 per cent in 1987.

   In the factory sector employment in 1980-81 was 7.854 million and in 1984-85 was the same 7.870 million, while its fixed capital doubled during that period.

3. Mandays lost due to strikes and lock outs are increasing at 345.3 lakh mandays in 1986-87
   394.7 lakh mandays in 1987-88

Source: Economic Survey 1988-89
and
Indian Labour Journal, July 1989.

The above table shows that the recorded employment generation grew at 60 per cent of the growth rate of population and workforce, that the 'liberalised policy' of industrial reforms and import liberalisation has generated little employment (0.8) in the private sector, which grew at 10 per cent in the 2 years 1986-88, and the mandays lost are increasing at a time when

employment generation is stagnant or low. But all the above is in relation to 7.9 per cent of the workforce working in the factory/organised sector. What about the other over 90 per cent of workforce?

There is no means of comparing the forecasts of the employment situation by the Mid Year Reviews with those of the government or planning Commission except for one year, 1985-86, which was the start of the Seventh Plan and which data is just repeated by both year after year. The Mid Term Appraisal of the Planning Commission has no data on employment for the years that are assessed, 1985-86, 1986-87 and 1987-88 in part. Its data is for the years 1972-73, 1971-78 and 1983 taken from Sarvekshana of 1986. This is referred to in the table below which sets forth the annual Mid Year Review for employment forecasts against such data as is available from official sources.

Table:XVII

1985-86

Mid Year Review	Government - Planning Commission in the VII Plan Document
- Total labour force 2600 lakhs of which - 250 lakhs are employed in the factory sector and together with SSI 365 lakhs (14 per cent of the labour force) employed.	- Target is 9 million employment per year be created plus - 3.9 million spill over from the Sixth Plan.

- The problem is absence of data on 2200 lakh workers. The employment growth in 1985-86 is estimated at 40-50 lakhs
- 745 employment exchanges show

  262 lakhs looking for employment, of whom 118.22 lakhs are educated unemployed.

1986-87

Mid Year Review

- 487 lakhs unemployed at the end of VI Plan out of total labour force of 290 million according to the 38th round NSS(1983-84)

Nil

- 15 lakh employment generated in agriculture in 1985-86

1987-88

Mid Year Review

- 24.6 million employed in the organised sector out of total employed of 186.7 million in 1986-87

NIL

- This means that 162.07 million are employed in the unorganised sector
- VII Plan document shows total labour force of 305.4 million, with 186.7 million employed, so that unemployed are 118.7 million
- 38th round of NSS in its first sub round reports unemployment at 9.20 million
- 821 Employment Exchanges report 310.3 lakh registered looking for employment.

1988-89

Mid Year Review

- Serious effect of 1987-88 drought on employment and underemployment not estimated - 32nd round of NSS places 19.07 per cent of rural labour as underemployed and 3.74 percent fully unemployed and 38th round at 21.04 per cent for under employment and 3.97 per cent for full unemployment which means in a rural labour force of 240 million, 64 million are underemployed and 9 million fully unemployed in a normal year. In a drought year these figures may be doubled. - NREP & RLEGP generated 449.13 million mandays in the drought year, 1987-88, which met 30 per cent of the employment needed.	Nil except for Planning Commission data from Sarvekshana quoted above

Looking at the data set forth in the above table, it will be noted with regret that a)apart from the first year employment targets in the VII Plan document, there is no official information on the status of employment, unemployment and under employment, b) the data set forth for each year being piece meal and adhoc are contradictory, and the Mid Year Review states specifically that it makes no attempt to reconcile these contradictions, c) the data on the labour force keeps varying depending on the source, and d) even for the drought year, 1987-88, no official effort is made to compute the unemployment and underemployment of the people which reflects their agony and suffering.

For 1988-89, the ministry of labour reports, apart from repeating, as it does year after year the data from the VII Plan document concerning the backlog of unemployment at the beginning of the Plan being 9.2 million to which the fresh labour entrants

during the plan of 39.38 million should be added, against which 40.36 million standard persons years of employment would be generated. It concludes with complacence that "the backlog of unemployment is likely to be less than at the beginning of the Plan".

The 840 Employment Exchanges show a marginal fall of employment seekers registered at 59.63 lakhs as at December 1988 compared to 60.11 lakhs in December 1987. The total number of persons on the live registers at the end of 1988 were 300.50 lakhs. A little over half of the registered job seekers (55 per cent) are educated. The number of educated job seekers at the end of 1987 was 167.35 lakhs compared to 164.52 lakhs a year earlier.

The Employment of women in the organised sector registered a growth of 3 per cent, as the number of women employees were up from 33.4 lakh at the end of March 1987 to 34.4 lakhs at the end of March 1988, the growth rate being 3.7 per cent in the public sector and 1.7 per cent in the private sector. The overall employment growth rate of the public sector fell from 1.9 per cent to 1.7 per cent in 1988-89 in the public sector and was a negative growth at -0.1 per cent in the private sector in 1986-87,[32] picking up marginally to 0.8 per cent in 1987-88.

Table XV at the start of the section and the Ministry of Labour report quoted above bring out the fact that the organised sector overall is generating employment at one third to one fourth rate at which labour force is growing annually, and in the

private organised corporate sector it is actually declining. The reasons for this slow growth of employment are multifarous, but the effects of "liberalisation" in terms of employment have been a)to encourage imports in certain areas which are in direct competition with indigenous units as in machine goods, forcing them to a lower capacity use and in some cases to close down, which throws the workers concerned out of employment, b) to promote imports of components and CKD units for assembly as is now happening in colour television sets, Maruti cars, personal computers etc, which reduces the demand for labour as against units which produces the items fully within the country, c)to encourage import of goods which replace domestic production as in the case of boilers, electrical equipment and accessories, HBJ pipeline etc, whose effect on employment is seriously negative. These negative impacts of 'liberalisation' of the organised sector on employment can be countered by positive effects on employment of the booming unorganised sector which the latest 43rd round of NSS is expected to provide. But even here there is an exception - and that is, that part of the ancillaries which are not factory based, and which have to face the substitution of their products such as components, accesories ancillaries etc, leading to their pulling down their shutters and their workforce being thrown out of employment. Even in the case of ancillaries which are in the factory sector and which are vertically integrated with the mother firm, there is the problem of the sharp reduction in the demand of the mother firm for their products resulting from the imports of the final product, which

leads to lower capacity use and growth of unemployment. The case of BHEL, Tiruchirapalli, for instance, which faces a near empty order boook position because SEBs have placed their orders for the expanded power programme of the VIII Plan of the order of Rs.32,000 crores with foreign firms (mainly because the bulk of the resources for this programme are through bilateral aid), which has led to serious distress among its 500 odd ancillaries and a sharp cut back in their work force - is known and earlier refer to. It is thus not surprising that the kind of growth record in the organised manufacturing sector has produced little or no employment and in the private sector has actually led to unemployment.

A recent draft report by the Planning Commission[33] calls attention to 1)the final results of the 4 sub rounds of the 38th round of NSS showing a little less unemployment rate compared to that of the first 2 sub rounds (for rural males 2.12 per cent instead of 2.3 per cent and for urban females 8.14 per cent instead of 6.9 per cent), 2) the population growth in 1988 being 2.16 per cent per annum (807 million) according to the Registrar General, 3) the provisional results of the 43rd round of NSS which indicates that at the end of Seventh Plan unemployment may be 10.5 million, 4) the rate of employment decelerating in 1978-83 is 1.5 per cent per annum compared to the 2.7 per cent per annum in 1973-78, in agriculture declining from 1.90 per cent to 0.57 per cent and in manufactures from 4.66 per cent to 3.03 per cent per annum between the 2 periods, 5) a general increase in the proportion of causal labour (at 7.2 per cent for male

workers) accompanied by a decline of 3.5 per cent in the proportion of the self employed, and 6) the absence of comprehensive data on income levels of the employed workers, which is even more important than the labour time disposition.

On this basis, for the Eighth and Ninth Plans it is estimated that if a reasonable level of employment for all is to be achieved by 2000, and the addition to the labour force during 1990-2000 is at an estimated 122.6 million, a) the annual rate of growth of employment would have to be 3.7 per cent in the next decade, b) the overall elasticity of employment would have to be 3.7 per cent in that period against the current 0.48 per cent, c) employment should be generated in the process of growth, in place of present trade off relation between growth and employmnent, d) the maximising of employment will involve simultaneously, i) a high rate of growth of output, ii)a structure of growth with a larger weightage for the labour intensive sector, and iii) the use of production techniques favouring labour, including technological upgradation in agriculture, unorganised manufacturing and services, e) dealing with agriculture where increased growth has meant lower employment as in Punjab versus Bihar. But as a large part of agriculture is still based on primitive technology and limited irrigation, with better irrigation and water management, agriculture can generate more employment. This means shifting attention in agriculture from developed to under developed regions. If the regional mix and crop mix of agricultural growth is changed, employment can be increased, f) identification of non farm activities, development

of agro industrialisation (processing of fruits and vegetables), of rural industries (bricks, tiles, pipes, cement etc), of handicrafts (embroideries and painted textiles, wood ware, metal ware, ceramics etc), all weather village road links, which are employment generating, g) a faster development of the economy to absorb in employment the migrating rural workers, and h) the need to correct the qualitative mismatch between the output of education and the training system and the increasingly complex manpower requirements of the economy.

This is a fair and honest summary of the current employment situation and the perspectives for the Eighth Plan.

Turning to the beneficiary oriented programmes of NREP and RLEGP (and in this regard IRDP is dealt in the next section) and to which at one point the technical note to the VII Plan attributed the reduction of poverty to extent of 44.62 per cent in rural and 16.11 per cent in urban areas, these programmes as they operated in 1988-89 and upto the first quarter in 1989-90 may be reviewed, even through the above quantification was and is strongly contested.[33]

Under NREP, in 1988-89 against an allocation of Rs.934.13 crores including the cost of 5.16 lakh tonnes of foodgrains plus Rs.223.30 crores (left over from the previous year), over 350 million mandays of employment have been generated: in 1989-90 the programme has been merged and converted into the Jawahar Rozgar Yojana. The evaluation of the programme shows that the programme has attained its targeted employment, that the socio economic

status of the beneficiaries was as planned, with 44 per cent landless labourers, and 70 per cent SC/ST and backward class beneficiaries; of the community assets created, construction of rural roads was the main scheme undertaken; and that it helped in stabilising wages in rural areas, and in containing the price of foodgrains. On the negative side, the evaluation shows lack of statistical data and a shelf of projects in the states, minimal involvement of beneficiaries in planning and selection of projects, and the poor quality of foodgrains. Under RLEGP with Rs.730 crores provided 260 million mandays were generated in 1988-89 in works of social forestry, minor irrigation works, land development and reclamation of degraded lands, augmenting ground water resources and the Indira Awas Yojana under which over 2 lakh dwelling units have been built for the poorest of the poor (SC/ST and freed bonded labour). The evaluation shows the same type of achievement as NREP, and on weaknesses it is reported that the desire to create assets adversely affected employment generation, the lack of monitoring, and the use of contractors[34]. Other programmes are the self employment programme for educated unemployed youth under which 25 lakhs of self employment schemes have operated in 1988-89 and the self employment programme for the urban poor which has just started. On the self employment programme, the Comptroller and Auditor general in his evaluation of the programme in 8 states reports that Rs.48.16 crores have been unutilised or diverted to other purposes. Banks have drawn an excess of Rs5.57 crores from RBI for subsidy of loans under this programme, which was not disbursed to the targeted beneficiaries. RBI reports that in 1987-88 Rs.205 crores were

provided to 1 lakh beneficiaries, with no monitoring on how these funds were used, leading to leakages and corruption.

From 1989-90, NREP, RLEGP and DWCRA and the original Rozgar Yojana have all been rather suddenly merged into a Programme, Jawahar Rozgar Yojana (JRY), which was announced at Rs.2100 crores in February, and increased to Rs.2626 crores on June, with the following features: a) all rural employment programmes - NREP, RLEGP, DWCRA and the original Rozgar Yojana - are merged to provide the Union assistance of Rs.2100 crores: b) the programme will operate throughout the country in every state, district and panchayat: c) the programme will provide work for 50 to 100 days in a year to 1 member of each family living below the poverty line to work near the village: d) the programme will place its funds with the panchayat, so that a panchayat with 3000-4000 people will obtain Rs.80,000 to Rs.1 lakh to implement the programme: e) the Union aid will be 80 per cent for the Jawahar Rozgar Yojana: f) atleast 30 per cent of the jobs will be reserved for women: and g) the financial devolution will depend on the level of backwardness, measured by the number of SC & ST, the proportion of agricultural labour to total labour, and of agricultural productivity. Also special consideration is to be given to such areas as hills, deserts and islands. It is too early to assess the results of the programme. Every effort to create employment in this poverty stricken country and its dismal rural country side should be welcomed, and so this new revised Jawahar Rozgar Yojhana should be welcomed. The timing of the revision is however disquieting. Within 4 weeks of the

announcement of the original programme, the revision has occurred. Further the personnel in the panchayats to whom the operations and the funds and the planning of the programme are to be entrusted must be trained and made professionally ready to operate this important and complex programme. They have no expertise at their disposal and they have no inventory of employment projects ready. So the possibility of wasting the funds is great. Further the panchayats except in West Bengal and Kerala are in the hands of the rural rich and powerful, who can and will divert the programme to serve their interests. The way in which the minimum wages legislation is being defied by them is sad but an important pointer. The financial calculation for the programme needs revision. With the state's share, it amounts to Rs.2625 crores. If 50 days employment is given to 1 member of 440 lakh families living below the poverty line at the minimum wage, Rs.3300 crores will be needed. If half the total goes for materials as per guidelines, only Rs.1300 crores will be left for wages, transport and supervision. This aspect, needs to be looked into. It is a pity that the programme is being launched in such haste with no chance for anyone to be prepared for it and to be readied. The rhetoric on the devolution of the programme to the panchayats sounds very much like rhetoric. Is it too late to go slow on this programme, and concentrate on the 120 districts to start with and use any available funds to strengthen the per family allocation under IRDP?

In July the Union government announced that more funds under the programme will be provided to the areas worst hit by poverty

and the poverty level of the states (and district/panchayat) is one of the major determinants of the allocations under this programme. The Union also spelt out further rules for the operation of the programme:

- Each Panchayat has to spend 15 per cent of the funds for providing employment to SC & ST.
- 50 per cent of the funds have to be spent on wages.
- atleast one member of each family must be paid the prescribed wage rate.

This means that on an average a village with 1000 person would get a minimum of Rs.95,000.

- UP under JRY is allocated Rs.413 crores against Rs.213 crores under the previous anti poverty programmes.
- Bihar gets Rs.300 crores against the previous Rs.175 crores.
- Madhya Pradesh gets Rs.204 crores against Rs.103 crores.
- Maharashtra gets Rs.165 crores against Rs.99 crores.
- Rajasthan gets Rs.100 crores against Rs.48 crores.
- Andhra Pradesh gets Rs.154 crores against Rs.94 crores.
- West Bengal gets Rs.172 crores against Rs.93 crores.
- Tamil Nadu gets Rs.138 crores against Rs.98 crores.
- Kerala gets Rs.52 crores against Rs.40 crores.
- Assam gets Rs.27 crore against Rs.29 crores under the previous anti poverty programmes.
- Punjab and Haryana get a small amount because of their relative prosperity.

Apart from the computations particularly concerning the sums previously received being contested by the state, and the problem of comparing incomparables as the anti poverty programme seems to cover only union government allocations whereas in JRY Union and state funds are merged, there are two serious problems raised by JRY as presently conceived and administered. The first is that the planning of the whole programme and the parameters of its execution are being concentrated in the Union government which is now planning for near 2000 panchayat unions. This is against the earlier finding calling for an area specific strategy. Second as poverty has been made a major determinant of JRY allocations (as that of the Ninth Finance Commission), there is a veritable inter state scramble to a) prove that each state's poverty level is higher than the others and b) challenge the current criteria and methodology of estimating poverty, which has forced the Union government to appoint a committee to review the methodology for estimating poverty. This will be a never ending exercise, as now states have a vested interest in perpetuating poverty.

On the conditions of work, one element needs comment - that on minimum wages. It may be recalled that the 1981 census placed 64.6 per cent of the workforce of 241.61 million as being engaged in agriculture, where the line between self employment and wage employment is blurred, and where agricultural workers are in effect the unorganised and weaker sector of the workforce. The most important labour law for them is the Minimum Wages Act 1948 which a) fixes minimum wages rates in employments where labour is

vulnerable to exploitation and b) provides machinery for fixing minimum wages, hours of work, over time pay, rest day etc. Of the 2 methods of fixing wages through setting up a commission or publishing draft proposals, state governments which are the executing authority have followed generally the second method. In 1986 the conference of labour ministers recommended that minimum wages should be reviewed every two years on a rise of 50 points in the consumer price index. The Act provides for enforcement of the wages and for an inspectorate to ensure that they are enforced. The record on this is poor, the number of inspectors inadequate, and the agricultural workers are vast in number and so the evasion of the Act by governments in the matter of periodic review and by employers in payment of the wages is serious and increasing. Three changes are desirable. First any short payment should provide for interest payment: second workers should be protected against victimisation or termination when their rights are demanded and/or wages raised: third the jurisdiction of the courts over disputes should be restored for aggrieved employees.[35]

Poverty and Inequality

As has been stated in every mid year Review, the only purpose of all the activities from the financing of the Plan and execution of the Annual Plan 1989-90 to the generation of employment is to alleviate the massive poverty of the people of the country and to reduce the inequalities in incomes and assets distribution between the various classes of society. How far has this basic purpose been served as at this mid year point, which

is also the terminal year of the Seventh Plan?

The answer is a regretful negative on both counts - alleviation of poverty and reduction of inequalities.

On the poverty status of the people, there is one new rather upto date source of information this year, for which we should be grateful to the World Bank, which has made a detailed study of the country's poverty, on which only the bank's statistical outline has been released. The full report is awaiting the government clearance, before being made public.

The Bank's poverty definition is almost identical with what we have been using for near two decades. For the Bank, poverty is where a person's income is inadequate to buy a nutritional food packet with a total calorie level of 2300 in rural areas and 2150 in urban areas. We have used a slightly higher level for rural areas of 2400 calories. It is particularly unfortunate that the bank data should have been released which shows an overall poverty ratio of 40 per cent of the population in 1988, on the day, (August 12), when the government repeated in answer to a question in the Rajya Sabha,[36] the old data from the 38th round of NSS which is available to every one in the Seventh Plan document that 37.4 per cent of the population were living in poverty in 1983-84. The Planning Commission comments on the Bank figure that its own studies show that poverty is much lower at 29 per cent in 1988. It would be very useful if the Planning Commission's study is made available, resulting in this figure of 29 per cent.

The Bank data is set forth (a)as a time series covering 1970, 1983 and 1988, b) distinguishing between the "poor" and "the very poor" and c) disaggregating the data between the 5 regions into which the country is divided as the table below shows:

Table:XVII

(percentage of population)

Region	Poor 1971	Poor 1983	Poor 1988	Very poor 1971	Very poor 1983	Very poor 1988
South comprising Andhra Pradesh, Karnataka, Kerala & Tamil Nadu	61	46.2	43.2	29.3	25.8	26.1
East comprising Bihar, Orissa, West Bengal, Assam	61.8	57.3	51.3	26.7	29.4	36.7
Central comprising Madhya Pradesh, Rajasthan & Uttar Pradesh	46.9	40.2	37.2	25.9	27.1	27
West comprising Maharashtra, & Gujarat	46.1	38.2	34.9	1.2	1.1	1
North West comprising Punjab, Haryana, Himachal Pradesh	12.6	9.8	8.3	less than 1		

Source: IBRD

The data in the table throws up, as noted, disturbing trends. While the 3 states in the North West region have overcome poverty and wiped out dire poverty represented by the very poor, the west follows next with a declining population of the very poor. The

south records a rapid improvement both in the lessening percentage of its people living in poverty and those in the very poor category except in 1988 when there is a marginal increase. The Central and Eastern regions are where over three fifths of the people of the country live. These 412 million people whose consumption and wages are low and per capita health and education facilities even lower, accompanied by high birth rates and accelerating growth rates of its labour force, face a difficult present and bleak future. The percentage of those living in dire poverty is stagnant at a high 27 per cent in the central region, it is worsening by 7.3 percentage points over the last quinquennium for the eastern region. The World Bank calls for special attention to these 2 regions. "Looking ahead, production and employment gains, and essential improvements in the health and educational status of the population will require expenditure increases which go well beyond the financial resources of the state in the region. Therefore, changes in revenue sharing arrangements to target the poorer states, in allocation of larger plan resources or establishment of a special regional fund to underwrite the large investments should be considered".[37]

The Mid Year Review predictions and forecast of poverty and inequality in the country rather than those of the government are supported by this World Bank study as the table below shows:

Table: XVIII

1985-86

Mid Year Review
a. On poverty no data. 38th round of NSS results awaited. IRDP reports assisting 125.85 lakhs of those living in poverty.
b. On inequality, 2.4 million land owners each own 10 hectares + which is 26.3 per cent of all land at 42.8 million hectares.

Government
Summary of results of 38th round announced in parliament and included in the Seventh Plan document

	1977-78	1988-89
All India poor	48.3%	37.4%
Urban poor	38.2%	28.2%

1986-87

Mid Year Review
a. On poverty, the definition adopted is expenditure:
in Rural areas Rs.107 per capita per month
in urban areas Rs122 per capita per month at 1984-85 prices.
b On inequality, Agricultural Census shows that those holding 10 hectare and and above 21.3 million in 1980 21.15 million in 1981

Government
The VII Plan document states on poverty:

	Percentage Ratio			No. of poor (millions)		
Year	Rural	Urban	Total	Rural	Urban	Total
1977-78	51.2	38.2	48.3	253.1	53.7	306.8
1984-85	39.9	27.7	36.9	232.1	50.5	272.7
1989-90	28.2	19.3	25.8	168.6	42.2	210.8

1987-88

Mid Year Review
a. On poverty, rejection of planning commission methodology of computation. 5 points of criticism of poverty ratios falling from 48.3 per cent to 37.4 per cent. Criticism on the basis of apportioning of poverty reduction shares to growth and beneficiary oriented programmes because there is no relationship between reduction of poverty and mean income levels or crop yeidls.
b) on inequality, Agricultural Census, reports increase in marginal operational holdings from 36.20 million in 1970-71 to 50.52 in 1986-87 (4 per cent increase).
-Agricultural labour as percentage of workforce increased from 17.2 in 1961 to 26.90 in 1981.

Government
Share of poverty reduction
-due to general development
55.38 percent in rural
and
83.89 per cent in urban areas
-due to beneficiary oriented programmes
44.62 per cent in rural
16.11 per cent in urban areas

1988-89

Midyear Review
a)On poverty 3 fold classification of poor
-Destitutes - incomes Rs.1-2266 per annum
-very very poor - income Rs.2266 to Rs.3500
-Poor - income Rs.3500 to Rs.6500
-Mid Term assessment finds poverty percentage increased.
b)On inequality
-only 44.31 lakh acres of surplus land distributed upto June 1988
-RBI's All India Debt and Investment Survey shows assets distribution between top 10 per cent and lower 10 per cent unchanged between 1971 and 1981.
-Organisation of poor recommended.

The above summary is not precise or consistent in quantitative terms on poverty, because of the lack of data. Now the World Bank provides data as seen in table XVII. But the worsening state of the country's poverty is repeatedly documented by the Mid Year Reviews as against the optimistic forecasts of the government.

The results of 43rd round of NSS on the poverty situation in the VII Plan is awaited. That round was carried out during July 1987 to June 1988 which was the very severe drought year. Given the inverse relations between foodgrain production and poverty levels which have been analysed in detail in earlier mid year reviews, it is extremely unlikely that the forecast that for 1984-85 the poverty percentage would fall to 36.9 per cent and further to nearer 30 per cent by 1989-90 will be confirmed.

IRDP has been one way reducing poverty, through the concept of newly created assets for the poor. During the first 4 years of the Seventh Plan over 1.34 crore families were assisted, using Rs.2272.71 crores plus Rs.9682.82 crores as credit from financial institutions. During 1988-89 31.94 lakh families have been assisted, using Rs.687.93 crores plus some Rs.900 crores of term credit. Evaluation of the programme by RBI, NABARD, and PEO show that 47 per cent of assisted families belong to the destitute group (Rs.1-2265), 50 per cent to the very poor group (Rs.2266 - 3500), 59 per cent of beneficiary families was selected by Gram Sabhas, assets had generated incremental income of Rs.2000 in 27 per cent cases, between Rs.1001-2000 in 24 per cent cases and 60 per cent of old beneficiaries had crossed the poverty line of Rs.3,500, and 13 per cent the revised poverty line of Rs.6400. On the negative side, ineligible families were 8 per cent of the programme, working capital was not provided to 25 per cent of cases and in 22 per cent cases no incremental income was generated. The other draw backs include the lack of an effective receiving/utilising mechanism to interact with the delivery mechanism to make the scheme area specific, and to integrate the plan of felt needs from below with that of developmental schemes from above, the lack of effective technical support and back up to the local body, the lack of a systematic training programme for local leaders and lack of appropriate infrastructural development to supplement the planning for the target groups.

The main argument in favour of IRDP is the slow pace of land reforms and the growing skewness of asset distribution. In that situation, the ownership of some asset by the poor is a plus point. Land reform comprising legislation for tenant has not only been moving at a tardy pace as pointed out in last year's mid year review, it has restricted the tenant's option for alternative employment and credit arrangements. The traditional obstacles to tenancy reforms including the recording and updating of oral and informal tenancies continued in 1988-89 and in the current year, through the collusion between state politics and the rural power structure, allowing the landlord time to evict the tenants, arrange nominal transfers, even doctor land records, and land use, along with poor implementation expressed in loopholes, escape clauses and the loss of compensation. Above all, land reform cannot proceed far without the organisation of poor farmers and tenants, and this is now urgent.

The other area of land reform is distribution of the surplus land over the ceiling. This programme is proceeding at a very slow pace. The government reports that as of March 1988 73.48 lakh acres have been acquired, 44.92 lakh acres distributed, and 28.56 lakhs acres remain to be distributed, because of lands involved in litigation, of various kinds of evasions and of unsuitableness. For the first time the government officially acknowledges that "the estimated surplus land on the basis of various national surveys is far in excess of the area actually declared as surplus. The most frequent criticism is that big and powerful land owners evade ceiling laws. The conference of

revenue ministers arrived at a concensus on the various meausres to increase availability of land for redistribution.

The measures like

-Tightening legislative measures

-Reviewing exemptions

-Redefining the family unit, and

-Redetermining ceiling limits

have been recommended to the states. There have however not been very encouraging responses to these".[38]

There is an increasingly sharp skewness in the asset distribution in the country both in the farm sector set forth in detail in Part I of Mid term assesment of Seventh Plan, and in the non farm sector summarised in the concluding paragraph of the mid Year Review for 1987-88. On the rural skewness, the evidence of the RBI surveys on All India Rural Debt and Investment which shows that the percentage of owned assets as between the bottom 10 per cent and the top 10 per cent remained unchanged between 1961-62 and 1971-72, remained stagnant at these levels in 1981-82, their non land assets of shares, insurance and debentures being 1.1 per cent of the total in 1971 and 1.2 per cent in 1981, while that of the top 30 per cent increased during the years from 72 per cent to 76 per cent on to 78 per cent; and of the 1981 Agricultural census which reports that m^rginal farms increased from 36.20 millions in 1971 to 50.52 million in 1981, add up to a grim situation. On urban skewness, the reference to the growing

volume of black money exceeding one third of GDP as, documented by the Institute of Financial Management and Policy,[39] the flight of Indian capital to tax havens abroad documented by the IMF staff,[40] the booming stock market where shares are held by less than 0.5 per cent of the adult community,[41] and the increasing capital and profits reported annually by the top 100 firms documented by RBI,ICICI,CMIE[42] etc are evidence enough. Short of an overall structural change to correct these inequalities, for which there is no political will, the possibility of enforcing measures to lessen inequality, on which there is some legislation, so that they are in fact implemented by following an area specific strategy, alongside of changing over to a wage goods model, which West Bengal has adopted in part, needs urgent consideration. But the West Bengal model was possible because of the political will for an effective land reform which broke the back of the rural power structure. The same has not happened in the urban sector, which is why the wage goods model is still a matter of rhetoric and not serious planning and action.

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